

JPRS-CAR-92-020  
10 APRIL 1992



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# ***JPRS Report***

# **China**

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JPRS-CAR-92-020

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10 April 1992

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## NATIONAL AFFAIRS, POLICY

### Article Discusses Goals for Price Reform

92CE0321A Tianjin JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese  
No 12, 20 Dec 91 pp 5-13

[Article by Chen Gongyan (7115 0364 3508): "Economic Conditions and Tentative Short-Term Price Reform Plans"]

[Excerpt] [passage omitted]

### II. Our Price Reform Goal Model: To Establish a Market-Dominated Pricing Mechanism

The price reform that has been underway in China for about a dozen years has brought a major change to our pricing system from the former unitary planned pricing system to one that combines planned and market prices. By 1990, market-regulated and state-guided prices accounted for 50.4 percent and 24.3 percent, respectively, of our agricultural product procurement, with the state fixed-price percentage having dropped to 25.3 percent. As to retail consumer goods, market-regulated and state-guided prices accounted for 45.5 percent and 23.2 percent, respectively, while the percentage of state fixed prices had fallen to 31.3 percent. As to capital goods prices, even though market-regulated and state-guided prices accounted for 40 percent each, with the percentage of state fixed prices having fallen to 60 percent when calculated according to ex-factory prices, the percentage of state fixed prices had dropped to about 50 percent when calculated according to enterprise purchasing prices. But it should be pointed out that these price reform successes were achieved mostly before 1987 or, to be more precise, they are a result mainly of the sustained impact of the various price reform steps that were taken prior to 1987. In recent years, while it may be said that many price modification measures have been put into effect, they have certainly not solved our major existing pricing problems. On one hand, the situation of too low planned prices for basic products and capital goods remains very grim, with even more severe losses being incurred by certain already losing industries, such as the coal industry, and a succession of certain formerly profitmaking industries, such as the oil industry, joining the ranks of the losing industries. On the other hand, state price subsidies are increasing progressively year after year, with subsidization of losing enterprises rising steadily. Our dozen years of price modification experience shows that when tangible progress in pricing system conversion cannot be made due to the limitations of objective factors, scientific price modifications can temporarily reduce the degree of distorted price relations in the short term, and lighten the burden of state subsidies. While it is precisely in this sense that price modification is tied to price reform, and is regarded as an indispensable part of the pricing system conversion process, price modification basically cannot bring about a rational price relations structure. Price modification is simply an

incidental part of the pricing system conversion process, i.e., a preparation for price reform, but not price reform per se. Price reform means changing the price formation mechanism and management system, and nothing else.

Of course, effecting a pricing system conversion certainly does not mean establishing a completely competitive market price system, which not only would be impossible in China, but actually has never existed even in countries with developed commodity economies. No matter what the economic system, prices are always subject to a certain degree or form of government control. The pricing mechanism that we advocate the establishment of is a market pricing mechanism that is suited to a planned commodity economy. Specifically, it means that "the prices of the few key commodities and labor will be under state control, while the prices of the large number of other commodities and labor will be freed up to market regulation." This goal model not only sets the rough quantitative limits of the different pricing forms, but also embodies per se the following exceptionally profound matters:

1. In this model, dual criteria are used to judge the rationality of prices. As to most commodities, prices are more rational the more fully they reflect market supply and demand relations. As to the few key commodities on the other hand, the rationality of prices cannot be measured by whether they fully reflect supply and demand relations. Otherwise, they would be no different than the prices for other commodities. In this category of commodities, price rationality depends on, 1) whether it ensures good production growth for products and, 2) whether it maximizes socio-economic results, i.e., pushes to the limit the steady, sustained, and coordinated development of the whole society and economy. Only prices that simultaneously meet these two conditions can be considered rational. These two conditions embody another latent one, i.e., that the setting of prices of commodities in this category cannot be premised on state subsidization, or they will not ensure good production growth for products. It should be pointed out that while the criteria for judging the rationality of prices for these two categories of commodities are different, they have a mutual impact, in that market price changes play a decisive role in price relations.

2. In the course of implementing this model, the pricing system conversion process will be dual-oriented, i.e., while most commodities will be converted to market prices, the prices of the few key commodities should be shifted to state control. More particularly, the prices of most commodities should be set by enterprises based on market supply and demand, with indirect control by concerned government sectors through laws and regulations, while those of the few key commodities are set and controlled directly by concerned central or local government sectors based on the scope of product use. It must be pointed out here that keeping the prices of the few key commodities under government control certainly does not mean that the state simply sets certain fixed uniform prices for certain commodities. Rather, state control

price forms can be diversified to include at least the following ones: 1) fixed prices, which can be divided into uniform fixed prices and partially fixed prices, with the latter being unavoidably subject to dual-track pricing; 2) conditioned prices, in which the state sets upper and lower limits or degree of fluctuation for certain product prices, within which enterprises choose their own specific prices; 3) one-way deregulated prices, with either minimum protective prices or maximum price limits. The actual choice of price form can be flexible according to product production operations and market supply and demand conditions. China's particular historic conditions mean that our pricing system conversion will be mostly toward market prices. Of course, the dual-oriented pricing system conversion process will have things in common, such as converting overall price control or management from administrative indexing control to quantitative control through things, such as monetary policy.

3. In this model, planning and markets will be combined organically. Planning intentions can be realized in this model in the following three ways: 1) through a policy of quantitative control of overall price levels; 2) through state control of the prices of the few key commodities; 3) through drawing up and enforcing policy laws and regulations on market prices for most commodities. Rational use of ways to realize planning intentions in the field of pricing not only will not interfere with the normal operation of market forces, but will even make them operate more effectively, it is thus obvious that this goal model for price reform includes both planning and market elements. But as market prices are the most basic and important element as to either the dominant orientation of price proportions or pricing system conversion, or the extent of the impact of pricing mechanisms, we are calling this model a market-dominated pricing mechanism suited to a planned commodity economy, which mechanism is essential to price reform.

### III. Price Reform Measures for the Eighth Five-Year Plan and Tentative Short-Term Price Reform Plans

In light of China's existing economic conditions and growth trends, we are not ready to push forward in the early part of the Eighth Five-Year Plan with converting most commodities to market prices, so that our price reform priorities will have to be placed on reforming our pricing system for the few key commodities, such as basic products, capital goods, and key agricultural products. I think that price reform in the Eighth Five-Year Plan should be carried out in the following two steps: 1) The basic price reform goal for the early stage of the Eighth Five-Year Plan should be to establish a scientific system of state-controlled prices for the few key commodities, by controlling the prices of the few key commodities that should be under state control, reversing the policy losses for production of basic products, and taking active and safe steps to clear up the dual-track pricing system. 2) The price reform goal for the latter stage of the Eighth Five-Year Plan will be to completely solve the dual-track pricing system problem, by moving ahead

with market-oriented reforms for the prices of most commodities, perfecting the price control system, and basically establishing a new pricing system. Of course, price reform progress in the latter stage of the Eighth Five-Year Plan will depend not completely on price reform plans per se, but even more so on the socioeconomic climate of the time and the progress that has been made in other system reforms.

In the next two to three years, we should take the following key price reform steps:

1. We should reexamine, reapprove, and republish the jurisdiction of the central and local governments over "the prices of the few key commodities," by clearly stipulating the controlling agencies, responsibilities, and standards of action, establishing relevant policy laws and regulations, and conscientiously intensifying control over these commodity prices. Control of all commodity prices under the jurisdiction of state control that have already been deregulated must be resolutely returned to the relevant sectors. State control of key commodity prices must emphasize not only price control, but even more so cost control. That is, we must establish a standardized and normal system of price modification, along with a scientific and strict system of cost control.

2. We should reform our pricing system for basic products, by raising the planned prices for coal, oil, power, and transportation. As coal, oil, power, and transportation are basic sectors of our national economic development, their product prices should be in the category of "the prices of the few key commodities" that are under state control. As these products are managed differently, their pricing systems and price modification principles should differ somewhat as follows:

A. Coal prices: As China's coal resources are very widely dispersed, with widely differing geological conditions and coal quality, and exceptionally scattered production and consumption activities, coal prices should be subject not to the uniform fixed-price system, but rather to the partially fixed-price system. That is, centrally planned mines should use state-fixed prices, and noncentrally planned mines should free up their prices to market regulation. In other words, the dual-track pricing system for coal should be retained for the long term, with the coal price reform goal being not to merge prices onto one track, but rather to gradually shrink the dual-track price differences based on raising the state fixed-price base for centrally planned mines. In the next two to three years, coal prices in centrally planned mines should be set according to the principle of "maintaining capital and earning tiny profits," in order to thoroughly change the longstanding losses sustained by centrally planned mines. In line with this principle, and in consideration of the four yuan per ton per year rise in the cost and nonbusiness-related expenditures involved in mining coal in recent years, as well as current cost levels, the planned price for centrally distributed coal should be raised from the 1990 level of 61.41 yuan a ton (the



overall average planned producer price) to 95 yuan a ton by 1993, for a 54.7 percent price increase.

**B. Oil prices:** As China's oil production and consumption are relatively centralized, they are suited to the uniform fixed-price system. Thus, while our oil price reform direction will be to merge prices onto a "planned track," as our current dual-track oil price differences are too large, and the difference between high and fixed prices for planned oil is too great, there would be more disadvantage than advantage in rushing to merge them onto a single track in the immediate future. In the next two to three years, oil prices should be set according to the principle of "maintaining capital and earning tiny profits," by raising the planned fixed prices and not changing the planned high prices, in order to first reverse the successive years of losses in the oil industry in recent years, reduce the dual-track price differences, and then pave the way for uniform planned oil prices based on planned high prices in the latter stage of the Eighth Five-Year Plan. Based on this principle, and in consideration of current oil industry costs and the trend of rapidly rising oil industry costs in recent years, as well as the price relations between coal and oil, the planned average fixed price of crude oil should be raised from its 1990 level of 171 yuan a ton to 380 yuan a ton by 1993, for a 122.2 percent price increase. As the price of crude oil has already risen 34 yuan a ton in 1991, it will actually have to be raised only 175 yuan a ton in the next two to three years, for an increase of 85.37 percent. Along with raising the price of crude oil, we should adopt the principle of mostly tax reduction supplemented by price modification for the oil refining industry, in order to keep from creating too great a shock to more refined products.

**C. Power prices:** As power is the lifeblood of an industrialized society, with widespread consumption and exceptionally complex production conditions, a uniform national power price would be unfeasible. Based on China's power production, our power pricing system goal should be a partially fixed-price system. That is, we should deregulate the price of power for nonstate power networks, use a state-controlled fixed-price by network for the selling price of power from state power networks, with one price per network, and differentiate the purchase price of power from state power networks, considering the peculiarities of various categories of power enterprises, such as hydro-, thermal, and nuclear power. In the next two to three years, our power price modification should follow the principle of "corresponding to change (i.e., modification corresponding to material cost change)," in order to ensure that power production and supply enterprises do not earn lower profits due to rising costs. In line with this principle, and in consideration of the abovementioned coal and oil price changes, the selling price of power from state power networks should be raised from its 1990 level of 118.08 yuan per kwh to 150 yuan per kwh by 1993, for an increase of 27 percent.

**D. Transport prices:** China's transport system is composed mainly of the five means of transport of railways,

waterways, highways, airways, and pipelines. Although transport prices fall in the category of state control of "the prices of the few key commodities," as there are great differences in the various means of transport, specific transport prices should differ according to the means of transport. Highway and water transport are less centrally managed and subject to sharper competition, so that a uniform fixed-price system would obviously be unsuitable, and it would be best to use a partially fixed-price system, in which the state sets transport prices for state-owned transport enterprises, and private or collective transport prices are deregulated. As railway transport is more centrally and easily managed, a uniform fixed-price system can be used. Air transport should use the conditioned-price system, and pipeline transport should use "fixed prices by line." In light of the importance of rail transport to China's current transport system, the state should focus on rail transport when planning prices and price relations for the various means of transport. As far as individual payment capability is concerned, China's current rail passenger transport prices are basically right, so should not be changed much. While our rail freight transport prices are not low from a profit perspective, in consideration of the objective needs of rail transport development and the fact that freight transport accounts for a very low percentage of China's commodity prices, in particular that the ratio of rail freight transport expenditure to industrial production cost and commodity marketing cost is very low, as well as the trend of rising fuel and power prices, it will be necessary to appropriately raise rail freight transport prices again in the next two to three years. A tentative plan would be to raise the rail freight transport price from its current 2.7 fen per ton-km to about five fen per ton-km by 1993, for a price increase of 85.2 percent. Along with raising rail freight transport prices, the freight transport prices of other means of transport should also be modified appropriately.

3. We should clear up the dual-track pricing system for capital goods. Along with the relative easing of domestic market supply and demand relations and our relative price stability in the last year or two, there have been rising demands to eliminate the dual-track pricing system for capital goods. I think that the dual-track pricing system will be an inevitable phenomenon during the period of China's economic system changeover. As long as the new economic system has not been completely established, the dual-track pricing system cannot be completely abolished. Moreover, we will not be equipped with the economic basis and system conditions with which to eliminate the dual-track pricing system in the near future. Our priorities in clearing up the dual-track pricing system for ordinary industrial capital goods in the next two to three years will be as follows: 1) We will rectify planned prices, sticking to uniform state fixed-prices for planned prices where we temporarily cannot eliminate dual-track pricing, and eliminating all temporary prices and extra-price charges; 2) for "the prices of the few key commodities" under state control, we can select the appropriate form of state fixed prices,

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in order to bring them more quickly under state control; 3) as to nonstate-controlled commodities where market supply and demand is more relaxed or varieties where more than 80 percent of enterprise consumption comes from the market, we can consider merging them onto a "market track," while changing the part that must remain subject to planned distribution to state goods orders or guaranteed quantity but not guaranteed price; 4) as to nonstate-controlled commodities where market supply and demand is more strained or varieties which account for a bigger percentage of planning, we will mostly raise planned prices, while shrinking dual-track price differences, and cutting down as much as possible on the percentage of planned distribution; 5) we will select certain product series, such as oil and petrochemical series or cotton and textile series, in which to conduct pilot projects in merging dual-track pricing onto a single track, in order to accumulate experience for the latter stage of the Eighth Five-Year Plan in solving dual-track pricing system problems by product series.

4. We should reform our pricing system for food procurement and marketing. While food prices are in the category of state-controlled "prices for the few key commodities," so are suited to conditioned prices, as far as China's current market conditions, storage capacity, funding and supply capabilities, and system conditions are concerned, the transition from our current pricing system for food procurement and marketing to stable conditioned prices certainly cannot be accomplished in a short period of time. In the next two to three years, the basic goal for reform of our pricing system for food procurement and marketing should be "synchronized procurement and marketing prices," with our basic reform principle being synchronized modification of procurement and marketing prices, and our key reform planks being as follows: 1) we will reduce fixed-price food sales, by strictly limiting fixed-price food supplies to grain rations for urban residents, students, and soldiers; 2) we will continue to raise the prices for supplies of fixed-price grain rations, in order to achieve synchronized procurement and marketing prices, by contracting management costs, while appropriately increasing the wages of staff members and workers. As China's grain

contract ordering price was 0.30 yuan per kg in 1990, our fixed-price grain selling price should be raised from its 1990 level of 0.15 yuan per jin (1/2 kg) to 0.30 yuan per jin by 1993, for an increase of 100 percent. As our fixed-price grain selling price has already been raised to 0.25 yuan per jin in 1991, we should eliminate the remaining 0.05 yuan per jin price difference at a suitable time in 1992 or 1993. If the grain ordering price is raised, this price modification should also be increased correspondingly.

5. As to consumer goods prices, only a few of China's consumer goods prices are still subject to state control, while most of them have been freed up to market regulation. In the next two to three years, as capital goods price reform and food procurement and marketing price reform will more or less affect consumer goods markets on one hand, while we will be reforming our social security and housing systems on the other, the state should not change ordinary consumer goods prices very much, in order to ensure a stable standard of living.

These reforms and modifications will not only help us to begin to establish a more scientific management system for the prices of the few key commodities, but will also basically eliminate policy losses due to the planned prices for basic products being too low, and sharply reduce state subsidization. As seen from a 1987 input-output chart, the projected impact of these price modification measures will be as follows: they will drive up costs for most industries in all sectors of the national economy less than 10 percent; costs will increase 10-20 percent for 16 industries, basically capital goods production industries; costs will increase more than 20 percent for only three industries, i.e., the coke industry (about 20 percent), the power, steam, and hot water industry (about 25 percent), and the oil refining industry (about 70 percent); the retail sales price index will go up about 6 percent. It is thus obvious that these price modifications will clearly not be a very great shock to individual consumers. Moreover, as long as unexpected changes do not occur in market supply and demand, the price modifications will not result in a return to former price relations.

Table 1. A Comparison of Money Supply, Prices, and Economic Growth (% Increase Over Same Period in Preceding Year)

Year	GNP	Loans	M <sub>0</sub>	M <sub>1</sub>	M <sub>2</sub>	Retail Sales Price Index
1988	10.9	17.1	46.7	22.5	19.8	18.5
1989	3.6	17.6	9.8	6.3	18.3	17.8
1990	5.0	22.0	12.8	19.1	27.7	2.1
1991 (January to April)		22.0		24.7	29.7	1.0

Table 2. State Subsidy Increases (Unit: 100 million yuan)

Year	Enterprise Loss Subsidies	Price Subsidies
1986	324.78	257.48
1987	376.43	294.60
1988	446.46	316.82
1989	599.76	370.34
1990	(The Two Subsidies Combined Topped 100 Billion Yuan)	

Table 3. Changing Labor Productivity Trends (% Increase Over Preceding Year)

Year	Social Labor Productivity	State-Owned Industry Labor Productivity
1988	7.9	9.9
1989	1.3	1.7

Table 4. Key Imports and Exports for First Quarter of 1991 (Compared to First Quarter of 1990)

Imports		Exports	
Varieties	% Decrease	Varieties	100% Increase
Average for 16 Varieties	30	Average for 16 Varieties	1.0
Rolled Steel	43	Rolled Steel	1.8
Copper	42	Cement	2.9
Aluminum	54	Aluminum	6.8
Soda Ash	89	Aluminum Products	5.4
		Tin	2.0

### Investment Choices, Needs Analyzed

92CE0312A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 12, 20 Dec 91 pp 3-11

[Article by Tian Jianghai (3944 3068 3189), Jiang Ming (1203 2494), Yue Guoqiang (1471 0948 1730), and Liu Lifeng (0491 4539 6646), State Planning Commission Investment Research Institute: "Analysis of Near-Term Investment Situation and the Pattern of Macroeconomic Changes"]

[Text] A fairly rapid upturn has occurred in investment in fixed assets, and total economic performance is at a turning point now that it is coming of a trough and beginning to expand. Faced with this situation, some comrades are worried about a recurrence of overheating that might set off a new round of currency inflation. Other comrades feel that a problem of insufficient aggregate investment still exists. How to make an accurate assessment of current investment and the character of changes in the economic situation has a very great bearing on the correct formulation and readjustment of macroeconomic policies.

### 1. Distinguishing Features of the Investment Situation During 1991

1. The current degree of upturn in investment pretty much matches the upturn in the economy as a whole, but it is teetering at a crucial point.

Growth of investment in fixed assets gradually began to accelerate during the second half of 1990, and a further strong upturn occurred in 1991. During the first half of the year, cumulative investment in fixed assets throughout society amounted to 174 billion yuan, up 14 percent from the same period in 1990 in 35 percent fulfillment of annual plan. However, past experience shows that actual investment during the first half of the year is usually between 33 and 35 percent of total investment for the entire year because of the seasonality of construction. Thus, it is anticipated that total investment for the year will surpass the 500 billion yuan goal in 1991, reaching approximately 520 billion yuan in a between 16 and 17 percent increase. After deducting for price factors, the increase will be approximately 12 percent.

The current economic growth has come about against a backdrop of a complete economic upturn. During the first half of the year, GNP, gross industrial output value, and the gross output value of heavy industry increased 6.1, 13.4, and 11.7 percent respectively over the same period in 1990, and it is anticipated that increases for the whole year will be 7.5, 12, and 10 percent. Calculations based on an input-output model show that given the present economic structure and technological situation, the coefficient of elasticity for investment in heavy industry is approximately 1.145, which it to say that for every 1 percentage point increase in heavy industry output value, investment must increase 1.145 percentage points. Experience shows that when economic growth is between 6 and 7 percent, growth of heavy industry and the growth of investment maintaining a 1:1.1 - 1:1.2 ratio, the correlation between supply and demand for investment is pretty much in balance. During the first half of 1991, this ratio was approximately 1:1.16, and it is expected that it will be 1:1.2 for the whole year. This shows that in terms of the correlation between supply and demand for investment, current investment growth is not yet normal, but it is approaching the upper limit of the rational range.

Simultaneous with the rapid upturn in investment growth has been a relative slowing in the upturn of consumer demand, the ultimate demand structure tilting in the direction of investment. Because of the serious accumulation in inventory of consumer goods, it is not easy to remove obstacles in the overall economic cycle. "Investment to stimulate markets" was the cry for a while, the hope being that investment expenditures would be carried into consumption channels to spark an increase in consumer demand. Today, the growth of investment has reached the upper limits; continued rise in investment growth means that the ultimate demand



structure will tilt even further in the direction of investment, which will be limited by the existing production structure. During the past two years, the distribution of national income has continued to tilt in favor of individuals, and the percentage of disposable personal income put into savings has also constantly increased. Consumption expenditures have not increased at the same rate during the same period. This shows that consumption growth will continue to rely to a greater extent on changes in the consumption pattern, meaning the appearance of new types of consumer goods and the opening of new consumption fields. Continued rise in the growth of investment not only cannot moderate the problem of insufficient consumption demand, but it may damage the mutuality between investment growth and economic growth.

2. Domestic loans are increasingly a source of investment funds. The degree of relaxation of credit policy will determine investment growth for some time to come.

In order to stimulate markets, increase demand, and settle triangular debt, the investment of loan funds has greatly increased during the past two years in the repeated creation of an all-time record. Loans of all kinds outstanding at the end of 1990 totaled 1.5166 trillion yuan in a 275.7 billion increase over the previous year. Forecasts call for an increase in outstanding loans at the end of 1991 generally equal to that of 1990. The tremendous expansion in credit is the main reason for the economic upturn, and it is also the main source of funds to support current investment growth. During 1990, total social investment increased approximately 31.2 billion yuan over the previous year, including an approximate 50 percent increase in the investment of domestic credit. During the first half of 1991, this percentage rose another approximately 10 percentage points. The national financial situation has not improved markedly during the past several years. Investment in projects covered by budget has continued to grow only slowly, and the anticipated maintenance of an approximately 5 percent growth rate during the Eighth Five-Year Plan no longer seems possible. In addition, because of the effect of the economic climate during the near term, except for the investment that local governments themselves provide (which accounts for 20 percent of all self-investment funds), it will be very difficult, at least within the year, to revive the past growth momentum of the various kinds of self-provided funds, which account for approximately 60 percent of investment funds. What happens next year will depend on the extent to which the economic climate improves. If the clearing up of triangular debt succeeds well, the level of demand may revive rapidly. If production rises rapidly as well, enterprises' returns taking a turn for the better, enterprises' own ability to provide funds may, it is hoped, revive to the normal growth level. Use of foreign capital and investment that urban and rural individuals themselves provide will continue during the early years of the Eighth Five-Year Plan at the level of the late years of the Seventh Five-Year Plan. No marked growth in such investment is possible.

Actually, there is good reason for the steady tilt toward credit as a source of investment capital. Since 1980, income distribution has steadily tilted in favor of individuals. City and rural residents' savings deposit balances have continued to grow at 20 percent a year, and accounted for 40 percent of all funds in the national banking system as of the end of 1990. At the present time, direct financial channels are not yet sufficiently well developed, so greater reliance on banks as go-betweens for converting individual savings into investment funds has become an inevitable trend. Credit is the only funds channel having a potential that can be tapped to supply funds. For the next several years, contraction and relaxation of the money supply will have a substantial effect on investment growth. The problem is that there are objective limits to both the percentage of bank credit expansion and long-term fund use. Beyond a certain limit, the stability of the macroeconomy will be adversely affected.

3. Investment by units under ownership of the whole people has rallied rapidly to become the principal factor in the growth of social investment. As a result, the investment mix is tilted toward basic industries.

The upturn in investment varies with the kind of investment. Broken down by system of ownership, units under ownership of the whole people invested a total of 96.3 billion yuan during the first half of 1991 in a 21.4 percent increase over the same period in 1990. This included a 57.4 billion yuan investment in capital construction, up 23.2 percent. Investment in renovation and technological transformation and other investment totaled 38.9 billion yuan in a 2.5 percent decline from the same period in 1990. The increase in investment by units under ownership of the whole people accounted for 78.1 percent of the total increase in investment during the first half of the year, including a 49.8 percent increase in investment in capital construction by units under ownership of the whole people. Investment by units under ownership of the whole people and investment in capital construction by units under ownership of the whole people as a percentage of total social investment for the same period amounted to 55.3 and 33.0 percent respectively. These figures show that the growth of investment by units under ownership of the whole people, and particularly their investment in capital construction, is the main reason for the rapid upturn in overall social investment.

Growth momentum for investment by units under ownership of the whole people, particularly their investment in capital construction, has revived very rapidly thanks largely to the support and pressure of tilt policies that the state instituted during the period of improving the economic environment and rectifying the economic order. The stimulation of investment during 1990 was also largely effected by providing additional funds to units under ownership of the whole people, particularly to key construction projects. Conversely, city and countryside collective investment declined tremendously for two years in a row as a result of investment cutback

policies and changes in market demand. Although the speed of growth of both city and rural collective investment during 1991 was fairly high, and is expected to reach more than 25 percent, this is largely because of the fairly low 1990 base figure. Figured at current prices, total investment for the year remained about the same as for 1988. After deducting for price factors, it was about 10 percent lower. As for most of individual city and rural investment being used to build personal houses, the increase in this investment depends mostly on population growth, and the increase in disposable personal income. This factor tended to stabilize at the end of the 1980's. Furthermore, because of the rigidity of income distribution, urban and rural personal investment being relatively little affected by year-to-year changes in economic growth, such investment is expected that it will remain stable during the near term.

Spurred by the inherent need for all forms of investment to be interdependent and complementary during the Seventh Five-Year Plan, a certain functional division of labor pattern took shape in investment. Generally speaking, investment by units under ownership of the whole people, particularly investment in capital construction, has been more concentrated in basic industries and key projects. Consequently, growth of various kinds of investment leads to a relative growth and decline in amounts, thereby causing changes in the investment mix. Accompanying the rapid upturn in investment by units under ownership of the whole people was an upward swing in the percentage of investment by all basic industrial sectors.

During 1990, 42.94 percent of total social investment was in basic industries, 2.74 percentage points more than in 1988. At the same time, the percentage of investment by units under ownership of the whole people in capital construction rose 3 percentage points. Calculations show that 74.12 percent of the rise in the percentage of investment in basic industries as attributable to a rise in investment in capital construction, 41.35 percent resulting from a further tilt of investment in capital construction per se in the direction of basic industries. The contribution of all other forms of investment to the rise in investment in basic industries was thus a negative value.

The foregoing situation shows that even though the tilt policies of the Eighth Five-Year Plan for readjustment of the investment structure have begun to be implemented and have had an effect, the changes result mostly from the effect on macroeconomic policies, particularly credit policies, of the investment in capital construction by the whole people. Inasmuch as the various increases that the various kinds of investment currently exhibit result only from the effect of short-term factors, no foundation exists for improvement of the investment structure. With the gradual upturn in the economy, all forms of investment will tend to grow normally, a certain amount of change in the investment structure occurring in consequence. Investment in aid development of basic industries will then face new tests.

4. Influenced by the planning cycle, new construction has increased greatly causing a further worsening of returns on investment. An investment peak may also occur in later years giving rise to a new round of investment inflation.

1991 is the first year of the Eighth Five-Year Plan when new construction has greatly increased under influence of the planning cycle. Statistics show more than 50,000 yuan [as published] worth of new construction nationwide during the first half of the year. The number of capital construction and renovation investment projects increased 76 percent over the same period in 1990, and total planned investment in new projects increased 1.1 fold, the two reaching the level attained during former high speed growth years.

Under the prevailing system, the marked increase over ordinary years in new construction projects at the outset of the plan year is natural. However, a substantial amount of the new construction today is in violation of industrial policy, and is not in keeping with existing regulations regarding project examination and approval authority. Although the large increase in new construction projects has no effect on the current scale of investment, it may spur a rapid expansion of investment in current construction that adversely affects returns on investment.

Throughout the 1980's, all indicators for returns on investment in fixed assets nationwide were at a fairly all-time low. The low returns on investment is an old problem that must be solved in the investment field. During the period of improving the economic environment and rectifying the economic order, some of the indicators that reflect the process of investment in construction took a turn for the better for a time. For example, the delivery rate for fixed assets built as a result of investment in capital construction and from renovation and technological transformation rose from 71.1 and 70.5 percent respectively in 1988 to 80.1 and 87.1 percent in 1990. The rate at which such completed projects came on stream rose from 53.3 and 52.6 percent respectively in 1988 to 53.8 and 55.5 percent. However, as a result of the effect of abrupt changes in the macroeconomic situation, the investment results coefficient declined into a trough. Figured in terms of GNP and national income, the investment results coefficient fell respectively from 0.60 and 0.54 in 1988 to 0.40 and 0.28 in 1990.

The economic upturn has been marked during the first half of 1991, so the investment results coefficient for the year may improve over last year. However, because of the startling increase in new construction projects, the turn for the better of the past two years in other investment results indicators will change, a worsening of the situation occurring. The rate of delivery of fixed assets for use during the first half of 1991 was 0.2 percentage points lower than for 1990, and both the project completion and commissioning rate, and the housing floor space completion rate fell to an all-time low for the same

period. On the other hand, the abrupt increase in the number of new projects started has resulted in an over-concentration of starting times for a large number of projects. In years to come, this will create tremendous pressures on the correlation between supply and demand for investment funds, and will bring about a new investment fluctuation peak, thereby hatching a potential risk of a new round of investment inflation. A questionnaire survey of investment plan intentions during the Eighth Five-Year Plan conducted in early 1991 shows a renewed trend toward upsurge in the investment desires of all sectors and all jurisdictions. Sixty-six percent of those surveyed believe that their sector (or jurisdiction) will increase investment by between 10 and 20 percent during the Eighth Five-Year Plan, and 60 percent of those surveyed believe that their main sources of investment funds will be government financial disbursements and bank loans.

Results of the foregoing survey form a sharp contrast to the lack of enthusiasm for investment at one time during 1990. After improving the economic environment and rectifying the economic order, and following the implementation of various readjustment measures during the past two years, normal growth of investment in fixed assets has begun in China. To a very large extent, however, this is only a treatment of the symptoms; the root causes of investment starvation have not been eliminated. Against a macroeconomic background of an economic upturn trend, the possibility of a new round of investment inflation is increasing.

## 2. Investment Picture Forecast for 1992

Whether the economic situation in 1992 will continue to develop steadily away from the present trend toward a turn for the better will depend on several factors. One such factor of major importance is investment growth. As a main device for increasing future supply capabilities, the role of investment on economic growth has lagged to a certain extent while the immediate effect of investment on the economy has been largely on the demand side. In drawing up annual investment plans, consideration must be given both to long and medium term development needs, and to the stimulating role of investment demand on the immediate economy as well as the possibilities it provides for economic performance. In this sense, a rational speed of economic growth is a prerequisite for figuring annual investment growth.

The speed of economic growth called for in the Eighth Five-Year Plan is 6 percent of the annual increase in GNP. This is a plan goal that offers plenty of leeway. GNP growth for 1991 is forecast at between 7 and 7.5 percent. Just how the economy will develop during 1992 will be determined by several factors, the most important of which is the degree of relaxation of credit policies, and success in clearing up triangular debt within the year. Several possibilities may be envisioned: the speed of economic growth may be set somewhat lower in order to put economic growth on a fairly firm financial and

material foundation to prevent sole pursuit of speed at the expense of quality, or the speed of next year's economic growth may be controlled at the same general level of the current year as changes in the current macroeconomic situation and the behavioral thrust of all main economic components warrants. On this basis, we postulate GNP growth rates of 5.5, 6, 6.5, and 7 percent as a premise for figuring 1992 investment.

### 1. Investment Rate.

Investment rate is a basic indicator of the correlation between economic growth and investment growth. Figuring speed of investment growth in terms of a certain speed of economic growth requires the provision of an investment rate in advance. During different stages of economic development, the correlation between economic growth and investment growth will change according to a certain pattern as a result of the effect of various factors such as the economic structure, thereby causing a certain trend of change in relevant investment rates. In addition, the appearance of cyclical fluctuations in economic growth are unavoidable, and the extent of fluctuation in investment will be far greater than the extent of economic fluctuation. Thus, during different states of cyclical economic fluctuations, the rate of investment will also moderate differently. In short, the appropriate investment rate is by no means a fixed and immutable value. It changes fairly greatly from one year to another, this change reflecting the various objective requirements of economic development and economic fluctuations for investment growth.

If the investment rate is regarded as a time sequence variable, it may be broken down into two quantitative products, namely  $R = T \cdot C$ ,  $R$  being the investment rate,  $T$  being the investment rate's trend value, and  $C$  being the investment rate's fluctuation value.  $T$  and  $C$  are determined by different factors. The former is determined by the level of economic development and the direction of changes in the economic structure; and the latter changes with constant changes in the economy's periodic fluctuations causing cyclical fluctuations. Changes in the actual investment rate will be decided jointly by changes in both the trend value and the fluctuation value. We arrived at the following conclusions from a survey of changes in China's investment rate for the period 1978 through 1990 to which we applied time sequence and cause and effect analytical methods. [Footnote 1. In this context, the investment rate means (investment by units under ownership of the whole people + city and country collective investment) divided by GNP. Investment does not include urban and rural personal investment, largely for data and statistical reasons. To the scale of investment so derived must be added the forecast value of urban and rural personal investment in order to obtain the scale of investment for society as a whole.] (1) China's economy is going through a period of rise in the investment rate, the trend value increasing from 18.5 percent in 1978 to 22.8 percent in 1990. This trend of change in the investment rate



results from the substitution of capital for labor in the course of progress in industrialization, thereby producing an organic increase that causes a rise in the capital coefficients of all enterprises. It may also be explained by the continued rise in the percentage of secondary industries at the present stage. (2) Under ordinary circumstances, the investment rate's fluctuation value tends to rise during periods of economic expansion. At the crest of the economic cycle and during the latter half of the expansion period, the investment rate's fluctuation value will be greater than one, making the actual investment rate greater than the trend value. During the early part of the Eighth Five-Year Plan, when the economy is in an upturn period, the investment rate's fluctuation value will gradually increase. (3) Despite the rise in recent years of both the trend value and the fluctuation value of the investment rate, the degree of rise in the investment rate will depend on the speed of economic growth. An actual investment rate for 1992 that corresponds with a respective 5.5, 6, 6.5 and 7 percent GNP speed of growth is estimated to be 21.01, 21.18, 21.35, and 21.52 percent.

## 2. Investment Scale

As a result of the difference between GNP growth and the corresponding investment rate, the scale of investment for 1992 (exclusive of urban and rural personal investment) works out to between 458.5 and 485.6 billion yuan (at current year prices). If price factors are deducted, it works out to between 443.1 and 460.3 billion yuan. Calculations using the same specifications produce an investment growth of between approximately 6.77 and 10.92 percent. Ever since 1989, urban and rural personal investment has remained at 100 billion yuan each year, exhibiting fairly strong consistency despite fluctuations in the economy. Most of this investment is used in the building of dwellings, the amount depending largely on the increase in disposable personal income and being influenced relatively little by changes in economic growth from one year to another. The forecast for 1991 calls for maintenance of the 1990 level. In view of the large area of flood disasters in China during 1991 necessitating the building of dwellings, both urban and personal investment during 1992 will increase somewhat over 1991, possibly reaching between 105 billion and 110 billion yuan in an approximate 5 to 6 percent increase. By adding the aforementioned two portions of investment, the forecast value for the scale of total social investment was attained. (See Table 1 for details).

Table 1. Forecast Values for Scale of Total Social Investment in 1992 (Units: Billion Yuan)

		GNP Growth Speed			
		5.5%	6%	6.5%	7%
Total Social Investment	Current Year Prices	563.6	572.5	586.5	596.5
	1991 Prices	544.1	549.8	559.0	564.8
	Growth (%)	5.63	6.76	8.54	9.67
Investment by Units Under Ownership of the Whole People and Collective Units	Current Year Prices	458.6	467.5	476.5	485.6
	1991 Prices	443.1	448.6	455.5	460.3
	Growth (%)	7.68	9.06	10.45	11.86
Urban and Rural Personal Investment	Current Year Prices	105.0	105.0	110.0	110.0
	1991 Prices	101.0	110.0	104.5	104.5

Note: Investment growth figured on the basis of forecast comparable prices

## 3. Investment Structure

1. Forecasting the investment structure is a fairly complex matter for which no completely satisfactory method currently exists. In general, forecasting is done only on the basis of industrial structure readjustment goals and the status of development of each industrial sector to produce a planning outline in terms of demand. We employed a dynamic input-output investment model to calculate the investment structure during the Eighth Five-Year Plan. Using this as a basis, we examined the trend of change in China's investment structure since the Sixth Five-Year Plan as well as the character of changes

during the past two years. We estimated the percentage of investment of every major industrial sector in 1992, and we took into account the forecast analysis of production growth and supply and demand for all industrial sectors in 1993 and 1994 as well as the effect that might be produced on national policy. We readjusted estimated values in light of experience (limiting an estimate of the investment structure of units under ownership of the whole people solely to the data base, to produce the results shown in Figure 2). As a corollary, the table also shows the investment structure during the Seventh Five-Year Plan, and for 1991.



Table 2. Investment Structure (Percentage) for Principle Industrial Sectors of Units Under Ownership of the Whole People

	Agriculture	Heavy Industry	Light Industry	Construction Industry	Transportation Industry	Business	Non-Material Production Sector
Seventh Five-Year Plan Average	2.43	48.4	13.23	1.21	11.83	3.48	19.43
1991 Estimated	2.48	50.88	10.73	0.73	13.13	2.34	19.27
1992 Estimated	3.13	51.33	10.09	0.88	14.13	2.13	18.4
Eighth Five-Year Plan Average	3.03	51.42	10.93	1.07	13.81	2.33	18.48

Results of calculations convey a generally fairly optimistic impression. Investment shows a continued tilt in the direction of basic industries to a greater extent than during the Seventh Five-Year Plan Period, thus, it is largely consistent with the demands of economic development during the Eighth Five-Year Plan. The percentage of investment in the construction industry is overly low. The large scale cutbacks in investment during 1989 were largely responsible for the reduced development of the construction industry for a time. The increase in investment in the industry was correspondingly affected, but a substantial upturn may occur toward the end of the Eighth Five-Year Plan. Furthermore, our estimated values for investment in agriculture during the Eighth Five-Year Plan are somewhat low because the tremendously increased investment in investment in water conservancy needed to withstand natural calamities could not be foreseen. The present situation suggests that the percentage of investment in agriculture of units under ownership of the whole people will continue to rise during the Eighth Five-Year Plan, possibly going as high as 3.5 percent or more. As for investment in industry, results of a survey questionnaire on the tilt toward various trades in the industrial investment plans of various provinces and regions shows that among light industries, the percentage of investment in the textile industry will show a fairly huge decline. Among

heavy industries, electric power industry investment growth will slow markedly from the past several years, while investment in the chemical industry, particularly in the petrochemical industry, will see above normal growth.

#### 4. Sources of Investment Funds

Sources of investment funds include capital accumulation, various kinds of compensatory capital, and foreign capital. Urban and rural personal investment comes from diverted personal consumption funds not included in capital formation funds, and from personal labor expenditures of an investment nature not figured into national income.

The various kinds of compensatory capital increased steadily as the amount of enterprises' fixed assets is being increased, amounting to approximately 80 billion yuan in 1992. During the near term, not much change is likely in the importation of foreign capital. Estimates call for approximately 28 billion yuan. The amount of capital formation depends on the speed of economic growth, the capital formation rate, and the capital formation structure. If the capital formation rate is held at 33 percent, and the amount of capital formation funds used for fixed assets is held at 70 percent of total capital formation, the investment of funds during 1992 will be as shown in Table 3.

Table 3. Estimated Values for Sources of Investment in Fixed Assets During 1991 (Units: billion yuan)

	Speed of Economic Growth			
	3.0%	4%	4.5%	7%
Total Sources of Capital	515.2	519.8	524.3	529.9
Capital Formation	407.2	411.8	416.3	420.9
Various Kinds of Compensatory Capital	80	80	80	80
Imported Foreign Capital	28	28	28	28
Capital Shortfall	40.1	52.7	62.2	86.7

Because urban and rural personal investment includes a certain amount of directly diverted personal consumption and labor outlays of an investment nature, the amount estimated at between approximately 30 to 60 billion yuan, overall, the total sources of capital for the four different speeds of economic growth and the corresponding scale of investment needed for each can be generally assured.

All of the various sources of funds cited above will flow through different capital supply channels into various investment entities to become investment outlays. The main capital supply channels may be divided up on the basis of statistical requirements into disbursements within budget, domestic loans, various kinds of self-provided funds, and the use of foreign capital. Among these various channels for the supply of capital, approximately 43 billion

yuan is expected to come from investment within budget during 1992, up 3 percent from 1991, the amount of foreign capital used will be approximately 26 billion yuan, maintaining roughly the same level as in 1991 with a slight increase. Various kinds of self-provided funds will total approximately 380 billion yuan, approximately 180 billion yuan of which will come from units under ownership of the

whole people, 100 billion yuan of which will come from urban and rural collectives, and another 100 billion yuan of which will come from urban and rural personal investment (including labor outlays of an investment nature). Thus, domestic credit investment during 1992 will have to be approximately 130 billion yuan. Percentages and changes in the various channels for sources of capital are shown in Table 4.

Table 4. Source of Investment Funds Broken Down by Channels (%)

	Disbursements From Within Budget	Domestic Loans	Use of Foreign Capital	Various Kinds of Self-Provided Capital
1990 (Actual)	8.7	19.3	6.3	65.7
1991 (Estimated)	8.2	21.3	3.6	66.9
1992 (Projected)	7.1	22.4	3.1	67.4

Past recorded percentages and changes show that the banking system will need a year-end fixed-assets loan balance of 323 billion yuan in order to provide credit for domestic loans of 130 billion yuan, an amount that will be 19.8 percent greater than in 1990. Average speed of growth for two years is 22.4 percent. In 1990, the banking system's year-end balance for all kinds of loans increased 273 billion yuan over 1989, and in 1991 the increase will remain at the 1990 level. If the degree of increase in 1992 continues at this level, the huge expansion of the amount of credit for three years running will be bound to have an extremely adverse effect on economic stability. Therefore, even though the sources of capital for investment can be largely assured overall, the effect on economic performance may occasion substantial difficulties for the supply of capital. This is a problem that must be diligently considered when preparing investment and economic growth plans for 1992 and 1993.

The foregoing provides forecasting data for scale of growth and sources of funds corresponding to the four different speeds of economic growth. The investment situation in 1992 will be determined by the near-term economic situation and changes in macroeconomic policy (particularly current success in easing the triangular debt problem), improvement in the overstocking of goods in warehouses, and increase in consumption demand. Economic growth during 1992 may approach the level of 1991, and the scale of investment will also show fairly tremendous increase. If they do not, both investment and economic growth will slow markedly. In doing planning work, a fairly prudent choice is to set norms somewhat low, making further readjustments once the situation is somewhat clearer. Given today's circumstances, if various state macroeconomic policies, particularly currency and monetary policies, remain stable, the real result in 1992 may be an approximately 6 percent or slightly higher speed of economic growth, gher, investment amounting to approximately 580 billion yuan (at current year prices).

#### Various Analyses of the Near-Term Investment Situation

Some fairly important theoretical and practical problems requiring a profound understanding are encountered in

analyzing and forecasting the investment situation for 1992 and 1993. We feel that in making an overall estimate of the near-term investment situation, one should not overemphasize the positive and favorable aspects. With the rapid growth of the economy during the past year, particularly the gradual acceleration of industrial production, the problem of a slump in the economic cycle has moderated to a certain extent. Now that an upturn in demand has taken place, investment growth having reached 16 percent, in particular, the correlation between total supply and demand remains fairly relaxed, the economic situation taking a turn for the better. At the same time, however, one must clearly realize that some deep-seated problems, particularly problems with the economic structure and returns, have yet to be solved. For some time to come, the economic situation will occasion no optimum. One should realize that although national economic performance has gone through a most difficult period, macroeconomic performance will still face a more complex situation.

#### 1. Economic Growth, Scale of Investment and Currency Inflation

The present economic upturn has not been propelled by demand for the most part, but is largely the result of a large infusion of credit funds. In order to avoid a further increase in the amount of finished goods remaining in inventory, a corresponding expansion of the scale of investment is needed. Calculations show that given present structural conditions, a 6 to 7 percent growth of GNP will require maintaining investment growth at about 10 percent calculated at comparable prices. Since a fairly long lag exists between a turn for the better in the government's financial situation and in enterprises' returns relative to an upturn in the economy, credit will be the main source of investment capital for the near term. Maintenance of a 10 percent growth in investment will require an increase of no less than 20 percent in the year end fixed asset investment loan balance. The scale of total credit will also increase rather tremendously on this account.

However, objective reality permits no greater expansion of the scale of credit. Because of the excessive credit

investment of recent years, the ratio between all year-end loan balances and GNP has steadily risen by 3 percentage points each year for the steady build up of inflationary pressure. It is only because obstructions to economic performance that cause a slowing of the circulation of capital have not yet been completely removed that the side effects of the overexpansion of credit have not yet become apparent. Therefore, stabilization of credit has become a crucial factor in macroeconomic operation for some time to come. For an economic growth of between 6 and 7 percent, growth of all year-end loan balances will have to be held within 15 percent.

Maintenance of economic stability requires control of the scale of credit, but assuring a certain investment growth requires expansion of the scale of credit, thus posing two difficult choices between achieving economic growth goals and maintaining economic stability. A direct cause of this predicament may be found in the market slump and the insufficient demand of the past two years during which it has not been possible to seize opportunities to readjust the economic structure. Instead the scale of credit has been blindly expanded in the one-sided pursuit of an upturn in production. This has brought about an accumulation in inventory of finished products, which clogs channels for sources of capital for investment.

Solving the problem of finished goods accumulating in inventory has become of crucial importance. Two possible methods are available: One is further expansion of the scale of credit to accelerate the upturn in overall demand, particularly investment demand, paying the price of a certain degree of inflation in exchange for smooth operation of the economic cycle and smooth and steady economic growth. Second is limiting production to draw down inventories, making a decision to close plants, suspend operations, effect mergers, or switch to the manufacture of other products, thereby using readjustments to the enterprise organizational structure and the assets availability structure to accelerate readjustment of the industrial structure and the product mix, doing all possible to increase effective supply.

The first method appears easier in terms of difficulty of operation, and pressures are also mounting in favor of this method. Nevertheless, this is an extremely dangerous choice. This is because any sudden expansion of credit will lead to serious rampant inflation that will produce a stagflation far worse than the inflation of the former several-year period when the economy overheated, and which will be far more difficult to bring under control. Therefore, even though difficulties in applying the second method are very great, it is the only feasible choice. Readjustments of the enterprise organizational structure and the assets availability structure are bound to have an effect on system reform policy, therefore, system reform must be speeded up. Stabilizing the economy can no longer be used as a pretext for slowing reform, quite the contrary, acceleration of reform has become necessary in stabilizing the economy.

## 2. The Income Distribution and Capital Formation Mechanism

Yet another important reason for the complexity of the current economic situation is the hiatus between changes in the pattern of income distribution and the remodeling of the capital formation mechanism. During the 1980's, local government, enterprise, and personal income as a percentage of national income continued to climb. Since 1989, in particular, despite a slowing of economic growth, disposable personal income has shown "rigid growth," distribution of national income tilting further toward individuals.

Changes in the income distribution pattern have caused the rapid disintegration of the former capital formation mechanism. Savings and investment policy decisions have become decentralized and disjointed, no longer is the scale of investment and the capital formation rate (including the accumulation of liquid assets) solely determined by government desires, but rather is the result of the joint role of disparate entities. At the same time, the building of a new capital formation mechanism that can effectively convert scattered, short-term social capital into long-term capital that can be concentrated for use has been slow in coming. Thus, with the steady acceleration of changes in the income distribution pattern has been a constant expansion of the bifurcation in time between the sources and uses of social capital, the disparity between the scattering of sources of capital and the concentration of capital for use becoming gradually more apparent.

In the process of reforming investment, for a time reform goals were limited solely to changing capital distribution methods, and effort made to change from the uncompensated to the compensated use of investment capital as a means of improving returns from the use of capital. Because of the failure to coordinate this reform with other reforms, this change in capital distribution played a very limited role. In addition, the country's financial mechanism developed extremely slowly because of the insufficient attention given to capital markets for a long period of time. For a time, economic stabilization and monetary stabilization served as pretexts for slowing reforms in this regard. At this late hour, the hiatus between changes in income distribution methods and remodeling of the capital formation mechanism not only impairs realization of long-term national economic development goals, but also has an extremely deleterious effect on the stability of macroeconomic operation. Given today circumstances of sole reliance on the middleman role of the banking sector, it is very difficult to satisfy the demand for capital for economic development. Because of the too great a reliance on a single financial tool, banks are very limited in converting dispersed short-term capital into long-term capital. Given the situation in which liquid capital accounts for too much of total capital, in particular, further expansion of investment loans for fixed assets not only intensifies the expansion of credit, but also poses excessive operating risks for the banks themselves. Therefore, it is



necessary to move ahead with reform of the financial system to accelerated development of long-term capital markets as a means of remodeling the capital formation mechanism.

### 3. Consumption Demand and the Investment Structure

The steadily increasing tilt of income distribution toward individuals has resulted in urban and rural residents' decisions about savings versus consumption and preferences regarding the consumption structure having an increasingly great influence on operation of the national economy. Abrupt changes in consumption demand during the Seventh Five-Year Plan several times caused macroeconomic instability, and the present insufficient consumption demand has also brought about the serious accumulation of consumer goods in inventory, which has become a major cause of difficulties in the smooth operation of the economy.

As the level of economic development has risen and the industrial structure has evolved, the fountainhead of capital formation for the national economy has changed from agriculture to processing industries, particularly to all sectors of the consumer goods industry. The uncertainty of consumption demand causes a predicament for the development of consumer goods industries, which has an adverse effect on the supply of accumulation capital. In addition, the serious slackening of investment in and development of basic industries has become a factor that seriously limits development of China's economy. Readjustment of the investment structure and acceleration of the development of basic industries is the main task in economic development during the Eighth Five Year Plan, the completion of which will require a stable supply of long-term capital. This has become an important requirement for successful realization of structural readjustment goals.

Changes in consumption demand pertains to the price expectations and the income expectations of individuals, and it also pertains to the steady transformation of consumption preferences; however, the too great a reliance on individual financial assets is also a major factor causing great ups and downs in consumption demand. Today, private individuals in cities and the countryside hold 800 billion yuan in financial assets, most of them in the form of savings accounts. Since they can only choose between putting their money into savings accounts or using it to buy material assets, the effect of environmental changes on consumption behavior is naturally extremely intense. Consequently, expansion of the forms in which financial assets may be held is a powerful means of stabilizing consumption. This not only holds significance for readjusting the raising long-term capital for the investment structure, but also sets the stage for ensuring the sustained, stable, and coordinated development of the national economy.

### 4. Investment and Development of Basic Industries

Despite the gradual tilt toward basic industries in the make-up of investment during the past two years, and

the marked improvement in the correlation between supply and demand in basic industries, changes in the make-up of investment have resulted largely in a rise in the amount of investment in industries under ownership of the whole people and a corresponding decline in the amount of investment in others. Improvement of the correlation between supply and demand in basic industries also stems from the slowing for a time of the speed of economic growth. Therefore, the goals of structural readjustments have not been realized. The situation remains extremely serious.

Actually, numerous reasons account for the present relative lag in the development of basic industries. Distortions in the pricing system have resulted in a lack of self-development capabilities for all basic industrial sectors, and the changes in the pattern of national income distribution have resulted in the state being unable to raise sufficient capital for use in the basic industrial sector. However, the shortage of investment is not the crux of the problem. It is nonintensive development resulting in an overly high level of consumption of capital that is the main reason why basic industries have become a "bottleneck" sector. It is for just this reason that we must use a larger basic industry sector to sustain a certain amount of economic growth. For example, maintenance of the present level of energy consumption to realize the economic growth goals of the Eighth Five-Year Plan will require that the energy sector alone invest 540 billion yuan. Conversely, if the energy consumption norms of all sectors can be reduced to the present advanced levels attained by various domestic sectors, the existing energy supply will be able to satisfy 50 percent of needs for GNP growth. The capital coefficient for various basic industrial sectors is fairly high, and their investment percentage stands at 40 percent. Continued increase in this percentage is something that China's present economic level can scarcely support. Furthermore, China's consumption of resources differs markedly from the international average, showing that a huge potential remains to be tapped in this regard. Looked at from this angle, investment in all basic industrial sectors must also be handled as specific circumstances warrant. The transportation industry (including ports and telecommunications), agriculture, and basic urban facilities must become the foci for an investment tilt. For this reason, the percentage of investment going to energy industries and to raw and processed materials industries cannot be raised, and efforts will have to be mainly placed on improving the extraction industries sector. Strategic measures for resolving the conflict between basic industries and development of the whole economy must include, first, not simply making up "shortages," without cutting "excesses." Industries currently producing an "oversupply" must not be used as a basis for judging and determining how badly basic industries are falling behind. A decision must be made to close, suspend operation, merge, or switch such industries to the manufacture of other products. Second, in making up "shortages," emphasis must not be given solely to increasing investment in the development of resources to the neglect of investment in economization.



Readjustment of the make-up of investment requires stabilization of the economy at a certain level. Too low a speed of growth will make difficult a change for the better in enterprises' returns and the government's financial situation. They will be unable to raise sufficient capital for construction. Too high a speed of growth will stimulate currency inflation, which will raise the cost of capital. A high capital coefficient will have a worse effect on the basic industrial sector. Accompanying the economic upturn will be increasingly great demand pressures on all basic industrial sectors. Furthermore, we do not have much time remaining to readjust the make-up of investment of all basic industrial sectors, particularly for the transportation industry and extraction industries, which urgently require development.

## PROVINCIAL

### Role of Price Reform in Guangdong Affirmed

HK2602130792 Guangzhou YANGCHENG WANBAO in Chinese 12 Feb 92 p 3

[Article by Zhuang Yan (8369 5069): "Price Reform: Catalyst for Prosperous Guangdong Market"]

[Text] In the old society, most people were afraid of the New Year because they had to pay their debts to their creditors. Before the Third Plenary Session of the 11th CPC Central Committee, most people were worried about the New Year because, with a lot of tickets and coupons, they did not know what to buy for the New Year's celebration. But over the past few years, most people have been delighted to celebrate the New Year because of their increased income, plentiful commodities in the markets, and stable prices. Particularly during the Spring Festival this year, there were exceptionally abundant festival goods in Guangdong's markets, the quality of goods was mostly better than before, and prices were stable or even lower. Owing to plentiful commodities and stable prices, people have changed their custom of celebrating the New Year and paying New Year calls. As a result, it has become a fashion that people wish others a Happy New Year on the phone or visit people with a bunch of flowers.

These changes have led people to think: A decade or so ago, to increase market supply for the Spring Festival, leadership at all levels had to organize sources of goods from various quarters, increase financial subsidies, restrict prices, and issue coupons and tickets only to find that there were long queues for goods and lots of complaints from the masses in return for the great pains they had taken and the large amount of subsidies the financial departments had spent. Now, on the whole, the leadership need not go to the producing areas to organize goods supply, financial subsidies are few, and commodities are abundant and the masses are satisfied. What is the secret in this? It is the power exerted by the policy of reform and opening up. And its more direct and effective power

is the price reform which has released the producers' enthusiasm, invigorated circulation, and brought about brisk markets.

From the very outset, Guangdong's price reform had a definite guiding ideology, i.e., accelerating development of productive forces should be taken as a basic criterion. At the initial stage of reform, there was a problem of how to treat the contradiction between production development and price stability. From beginning to end, our province adhered to the criterion of boosting productive forces, gave top priority to the development of production, and tolerated price rises by a certain margin at a certain time. With regard to most commodities, we preferred "to have goods at high prices" rather than "to have no goods at reduced prices" or "to buy goods with tickets at low prices." In the early years of reform in Guangdong, the margins of price rises were bigger than those in the whole country, but production growth was quicker and the market supply was richer, which laid down a solid material foundation for the stability of prices afterward. Guangdong's price reform has played a remarkable role in promoting production development, increasing market supply, and stabilizing prices.

**Allow enterprises to have rational profits.** To develop the socialist planned commodity economy, and let enterprises assume sole responsibility for their profits or losses and have opportunities and motive force for self-development, production and operation enterprises should be allowed to have normal and rational profits. To this end, our province has gradually relaxed control of the prices of most industrial consumer goods in view of the fact that some enterprises found it difficult to develop because of the excessive and rigid price fixing and price reduction by administrative means in the past. As regards the commodities on which price control was not lifted, wherever possible, enterprises should be allowed to have rational profits on readily marketable commodities when their prices are fixed. For products locally produced and sold, prices were generally fixed by their rational costs plus certain profits. As to the varieties of goods whose prices were fixed by the state, prices were allowed to be temporarily set at a higher level for the portion exceeding the quotas prices. Therefore, even though the state's prices were lower, our enterprises were complemented by the self-marketing portion at higher prices so that there were still profits in the consolidated account. In this way, the enterprises' enthusiasm to increase production was protected. At present, the enterprises, whose product prices are controlled by the province, are developing more rapidly than similar enterprises on the mainland, and are yielding better economic results. An important reason is that the price reform has enabled them to have a certain amount of profits to be used in the renovation of equipment and the development of multiple production, and to have the vitality of self-development to suit market competition.

**Give priority to the development of agricultural and non-staple food production.** Agricultural products and non-staple food are directly supplied in the markets, and they are also raw material for light industrial and textile production. The increase and decrease of supplies are major factors affecting the rise and fall of prices. Consequently, we should take firm hold of this focal point as the key to ample market supplies and stable prices. In 1979-83, a few years earlier than other provinces in the country, Guangdong successively raised and lifted controls of purchasing and selling prices of fruits, pond-bred fish, pigs, poultry, eggs, and so on, enabling these products to rapidly develop. Over the past three years, the growing area and output of fruits has jumped to first place in the country, the output of aquatic products accounted for one sixth of the country's, and vegetables, after local consumption, are transferred to northern China in large quantities. Although control on the price of grain has not been lifted, yet its purchasing price has been raised four times by bigger margins than the nationwide prices, and the selling price has also been adjusted so that peasants' enthusiasm has been heightened in growing and selling grain, with the total output of grain increasing 2 percent every year. To ensure a supply of nonstaple foodstuffs to large and medium cities, a fund for regulating nonstaple food prices has been set up, and funds from other areas have also been raised through price levers for the "vegetable basket" construction projects to increase nonstaple food supply. Besides, circulation and supply departments are subsidized so that they can increase reserves to balance supplies.

**Ensure transportation and market construction to proceed ahead of everything else.** When products are turned out, they cannot reach consumers unless there are unimpeded transportation and ample markets for goods display. To promote transportation and market development in the process of price reform, our main practices were permission to collect charges on projects after use to make up for the costs of loans and fund-raising, and encouragement of building bridges, roads, and markets by all localities. After these measures were put into effect, construction of highway, railway, bridges, and markets developed rapidly with very few investments from the state. They have created a material foundation for unblocked circulation of commodities.

**Persist in the management of regional price differences and the differential ratio of purchase and sale.** As the varieties and price levels of products allocated by Guangdong are different from those by other provinces, inevitably, there are conflicts in prices. For this reason, some provinces and autonomous regions have set up checkpoints on borders to prevent the goods from entering their regions or restricting them by collecting charges. In face of this situation, Guangdong firmly insisted that to develop the socialist commodity economy, it is necessary to maintain regional price differences, otherwise, commodity circulation will not work. Therefore, we withstood pressure from various aspects and adhered to the reform in regional price

differences. At present, the artificial obstacles to commodities' two-way flow between various cities in the province as well as fraternal provinces and cities have been substantially removed, thus giving full play to respective advantages and increasing the varieties and quantities of market supplies. To avoid a price hike due to innumerable rounds of selling in the long distance of transportation and trafficking, we have fixed circulating times and differential ratio of purchases and sales so that business operators will be encouraged to yield greater results by reducing costs and increasing varieties and quantities of what they carry.

**Practice a management system of agency prices and trades coordinated prices for import and export commodities.** At present, most import and export commodities are subject to agency prices. Through direct contacts of producers and sellers at home and abroad, goods supply can be increased as production and operation are organized in line with market demands. In order to check the phenomena in which some products have been rushed to market at increased prices at home but dumped at reduced prices abroad, we have organized to set coordinated prices for different regions and between industry and commerce, as well as between domestic and foreign trade. The import goods included in the state plan are generally subject to agency prices too, but the import units are allowed a certain amount of import commission or profit so that enterprises will be encouraged to fully use the foreign exchange they have attained to import more goods to increase supplies in the domestic markets. More preferential treatment in prices has also been granted to foreign-invested enterprises. In the portion of goods for domestic markets, they are, in principle, subject to domestic prices, but price differences in accordance with quality are permitted. In this way, foreign capital has been lured into our province, and domestic market supplies have been boosted.

In addition, departments in charge of prices have conducted cost auditing to help enterprises improve their operation and management, reduce costs, and give impetus to production development. They have provided an inquiry service for market price information to help enterprises carry on rational purchase and sale activities and promote circulation of commodities. They have also exercised control on administrative and institutional charges, curbed the practices of unjustified financial levies, charges, and fines in a bid to lighten the burdens of production and operation enterprises, reduced costs, and indirectly cut prices. The departments in charge of price examination have all the year round examined various units and localities in implementing the state's price policy. If prices exceeding reasonable levels are discovered, they will be corrected, thus curbing random price hikes, and directly keeping down price rises. The market price situation in our province is comparatively good, but there are still a few problems. Over the past two years, the price level has been stable. However, owing to the greater increases in previous years, our price level is still much higher than

the national average, and those who live on basic wages have been in difficulty. In Guangdong, the portion under market regulation accounts for more than 80 percent of the economy, the state macroeconomic regulating and controlling power is weak, and prices are liable to be affected by general atmosphere, especially by banking credit, wages paid out by banks, and scale of capital construction. Once there is a rustle of leaves in the wind, prices will soar. All this should be studied and solved in the future. Meanwhile, along with the objectives of improving economic environment and rectifying economic order being basically achieved, the key points of price work should be shifted as well. In 1979-88, our country's economy was focused on revitalization and delegation of power to lower levels at home, and on economic exchange and opening up to the outside world abroad. Under such circumstances, the emphasis of price control was laid on the relaxation of prices and, at the same time, it was supplemented by adjustment and management. In 1989-91, in light of price relaxation being somewhat out of control and the economy being overheated, we conducted economic improvement and rectification, and had our economy appropriately centralized. At that time, attention was paid to the management of price reform, which was supplemented by relaxation of price control and adjustment. In the face of the present new situation, the emphasis of price reform must be placed on the three-in-one combination of relaxation, adjustment, and management on the basis of summing up previous successful experience to serve a more prosperous market and a more developed economy in Guangdong.

### Financial Revenue Increases in Henan

HK0104101992 Zhengzhou Henan People's Radio Network in Mandarin 2300 GMT 31 Mar 92

[Text] This year, our province has witnessed a turn for the better with regard to financial revenue and expenditure. By the end of February, the accumulated provincial revenue had reached 1.222 billion yuan, accounting for 11.8 percent of the annual estimates, whereas the accumulated provincial financial expenditure had reached 853 million yuan, accounting for 10.7 percent of the annual estimates, thereby striking a favorable balance between financial revenue and financial expenditure.

The provincial financial revenue in February stood at 520 million yuan, representing the highest increase rate over the past four years, whereas the provincial financial expenditure stood at 344 million yuan, representing the lowest increase rate over the past four years. The increase in financial revenue is mainly attributable to a big increase in enterprise income and a big increase in industrial and commercial tax collection, whereas the decrease of financial expenditure is attributable to a big decrease in various types of price subsidies and in funds appropriated for tapping enterprise latent potentialities, transforming enterprise technology, and building scientific and technological research projects.

### Jiangsu To Open Wider to Outside World

QW3103133692 Beijing XINHUA in English  
1333 GMT 31 Mar 92

[Text] Beijing, March 31 (XINHUA)—East China's Jiangsu Province will open wider to the outside world by taking advantage of the development of Shanghai's New Pudong Area and focusing efforts on developing its seven cities on the Yangtze.

This was stated by Jiangsu Governor Chen Huanyou at a news briefing here this afternoon.

The governor spoke of his province's opening measures as:

- Building up a modernized network of communications and transportation in the economic belt along the Yangtze, which is composed primarily of seven cities.

Speeding up the construction of the Shanghai-Nanjing expressway and the Jiangyin Bridge on the Yangtze.

Building a group of port cities along the river and developing processing zones and an export-oriented harbor industry by utilizing local port resources.

Developing tertiary industry in cities along the river so that they acquire multi-functions and a diversified economic structure.

Further expansion of the seven cities along the Yangtze, namely, Suzhou, Wuxi, Changzhou, Nantong, Nanjing, Zhenjiang and Yangzhou, will correspond to the development and opening of Pudong, serve as a powerful backing force for it and propel the development of the whole economic belt along the Yangtze River, said Chen, who is here attending the ongoing session of the National People's Congress as a deputy.

By 2000, the region's total production value will reach 270 billion yuan, with an accumulated use of 10 billion U.S. dollars in foreign funds, according to Chen.

Also, the province will launch an air service from Nanjing to Nagoya of Japan and passenger and freight shipping lines from Lianyungang to South Korea, he said.

Construction of the Kunshan Development Zone will be sped up so as to bring its role of connecting Pudong with Jiangsu into further play, he said, adding that with the area expanded to 20 square kilometers, industry and service trade will be the focus for development.

Meanwhile, Jiangsu will take positive measures to attract overseas investment, he said.

Last year, the province set up 1,142 more foreign-funded enterprises, equalling the total sum in the preceding 12 years.



### **Jiangxi Paper on Boldly Carrying Out Reform**

HK2001020092 Nanchang JIANGXI RIBAO in Chinese  
23 Feb 92 p 1

[Editorial: "Emancipate Our Minds, Be Bold in Carrying Out Reform, Really Grasp Our Work in a Down-to-Earth Manner"]

[Text] On the eve of the Lunar New Year, the provincial CPC committee held a Standing Committee meeting to study in a concentrated way the issue of further deepening reform and opening up wider and stressing that our minds must be emancipated a bit more and we must be a bit bolder and open up a bit wider to develop the economy a bit faster. When the Lantern Festival (15th of the first lunar month) passed, the provincial CPC committee and government held a mobilization rally to push reform and opening up forward and to accelerate economic development. The rally passed on and called for the implementation of three important measures recently worked out by the provincial CPC committee and government for conducting a pilot project of comprehensive reform of the economic structure in Zhangshu city, building the Nanchang-Jiujiang Industrial Corridor, and carrying on a pilot project of comprehensive reform in transforming six state-owned industrial enterprises' operation mechanisms. The rally also appealed to the cadres and the masses to further inspire their enthusiasm, to strengthen their confidence, to seize the opportunity, to forge ahead at favorable moments, and to push our province's reform and opening up forward without losing any time.

In this short period of some 20 days, the leading comrades of the provincial CPC committee and government also went to Jiujiang, Ganzhou, and Fuzhou to carry on inspection and discussed the great plans for pushing forward reform and opening up and for economic development with the local cadres and people. The provincial government successively held an executive meeting and a phone conference to arrange for the work in the first quarter of this year and for reform of the state and cooperative commercial systems. All this shows that the provincial CPC committee and government have resolved to implement the party's basic line continuously, unswervingly, and completely; to quicken the pace of reform and opening up with greater courage; and to enable our province's economic construction to scale new heights with one heart and one mind. In the face of such a gratifying situation and the urgent and arduous tasks of reform and construction, all people throughout our province must be further mobilized, emancipate their minds, be bold in carrying out reform, and really grasp their work in a down-to-earth manner.

Of emancipating our minds, being bold in carrying out reform, and really grasping our work in a down-to-earth manner, the primary issue is to further emancipate our minds. Comrade Deng Xiaoping said: "Only by emancipating our minds, insisting on seeking truth from facts, proceeding from reality in everything, and linking theory

with practice can our socialist modernization construction carry on smoothly and can our party's theory of Marxism-Leninism-Mao Zedong Thought develop smoothly." He also clearly and definitely pointed out: "The four modernizations promise no hopes of success without breaking with ideological ossification and greatly emancipating the minds of the cadres and the masses." Practice since the Third Plenary Session of the 11th CPC Central Committee proves that with today's prosperity and such improvement of the people's living standards, China has benefited from the emancipation of the mind and aroused its people's spirit of reform and blazing new trails, their spirit of opening up a new path and making progress, and their spirit of working in a down-to-earth manner to invigorate the country. China has also benefited from the emancipation of the mind and created a road to reform and opening up to make the country powerful. From our province's practice in the last 10 and more years, we can clearly see that the pace of reform and opening up is closely linked with the degree of economic development and emancipation of the mind. In places where the minds are emancipated more, people are a bit bolder in carrying out reform and opening up, policies are opened a bit wider, and economic development is a bit faster. Confronted with the new situation and the new tasks, we hope that the leading cadres at all levels will take the lead in emancipating minds and further push all causes forward with further emancipation of minds.

In the past 10 and more years, there have emerged in our province a large number of pathbreakers who dare to think, explore, and blaze new trails. Without such a large number of pathbreakers, it is impossible to score great achievements in our reform and construction. To guarantee the achievement of the second-step strategic objective, we must continuously advocate the spirit of boldly exploring and blazing new trails among the cadres and the masses. The tasks of economic improvement and rectification have now been basically completed, thus providing us with a favorable opportunity to increase the work of reform and to accelerate the pace of opening up and create comparatively easy conditions. Together with the 10-odd years of practical experience, we should have determination and courage and should have every confidence of winning. However, we must also see that while reform is developing from the superficial to the deep layer, from units to the entire area, and from a single item to the whole field and is developing in all directions, many new problems, contradictions, and difficulties will surely appear. This requires us to resolve them through boldly exploring and boldly conducting experiments. It will not work if we are overanxious for quick results without proceeding from reality. However, if we are afraid of suffering setbacks, and taking risks and do not vigorously do what can be done and done well, it will not work, either. All places, departments, and units that conduct pilot projects in this aspect must undertake the important tasks entrusted by the provincial CPC committee and government, strive to create new experience in deepening reform and opening up wider, open up a



new road to the promotion of rapid economic development, and act as good file leaders in pushing forward reform and opening up throughout the province.

Recently, the leading comrades of the central authorities have repeatedly stressed that it is necessary to change work style and really grasp our work in a down-to-earth manner. While Comrade Jiang Zemin was speaking at a Spring Festival get-together, he pointed out: "Confronted with the arduous tasks of reform and construction, we must inspire our enthusiasm, shun arrogance and impetuosity, and really grasp our work in a down-to-earth manner. We must really change our leadership style, do our best to guard against formalism, and concentrate our energy on study and resolution of the salient contradictions and problems in the course of advance." Really grasping our work in a down-to-earth manner or pursuing formalism is not only a matter of the work style but also a question of whether or not we have dedication and the sense of responsibility. Our province's economic foundation is relatively weak and our province lags behind the advanced areas. On the premise of stressing economic results, our development should be a bit faster and we must strive for leaping development. To achieve this, our leading cadres at all levels must firmly grasp economic construction—the center—without relaxation and not divert or distract their attention at any time. We must go deep into realities and the masses and go to the frontline of all industrial, agricultural, commercial trades, and professions to conduct investigation and study so that we can understand the new situation and new problems appearing in the course of reform and construction and promptly sum up and popularize the masses' new creations and experiences. The leadership organs at all levels must insist on setting store by the interests of the whole, take the overall situation into account, have the cardinal principles in mind, abide by discipline, and vigorously guard against formalism. They must not pay lip service but concentrate their energy on practical things.

Spring comes to the earth again and everything looks fresh and gay. We firmly believe that in the second year of completely carrying out the outline of Jiangxi Province's Eighth Five-Year Plan and 10-Year Program, as long as the people of the whole province closely rally around the CPC Central Committee with Comrade Jiang Zemin as the core, rouse themselves for vigorous efforts to make the country prosperous, and work with one heart and one mind, our reform and construction will surely make an even bigger step forward and all people throughout our province will certainly greet the victorious holding of the 14th National CPC Congress with new and still greater achievements.

## FINANCE, BANKING

### Economist on Savings for Housing

92CED346A Beijing JINRONG SHIBAO in Chinese  
25 Feb 92 p 3

[Article by Deng Yingling (6772 2503 5044): "Housing Savings—Combining Savings With Credit"]

[Text] The term "housing savings" refers to special savings accumulated by urban residents specifically for the purchase or construction of housing. Banks have established this type of savings account to readjust consumption patterns, increase revenues for housing loans, support and promote housing reform, and establish a healthy circulation of housing funds.

### I. Characteristics of Housing Savings

Housing savings are a new type of savings which have developed in response to the need posed by the commercialization of housing. In addition to serving the usual functions performed by savings (regulating consumption demand and converting consumption into accumulation), housing savings also have the following characteristics:

1. Contractual. In a low-income country like China, the great majority of people need a bank loan to purchase or construct housing, and banks must have housing savings in order to extend housing loans. Savings must precede loans.
2. Compulsory. People can deposit money in regular savings accounts or withdraw it at will. With a contractual housing savings account, however, the amount and maturity date of these accounts are subject to contractual restrictions and a certain degree of obligation. The classical compulsory savings account is the public reserve fund currently administered in Shanghai.
3. Stable. Contractual and compulsory housing savings are planned savings accounts. Such savings accounts are backed up by a business contract as well as the state's administrative laws and regulations. In addition, the interest rate is fixed from the start, so it is not affected by market interest rate fluctuations or supply and demand for funds. The funds are very stable.
4. Long term. Housing is an indispensable, high-value individual consumer good. People cannot accumulate enough funds in a short time to buy it, and it even takes some time to save up for the down payment, so contractual housing savings accounts are long term. Public reserve fund accounts are long-term savings accounts in which participation is obligatory.
5. Specified use. Regulations stipulate that contractual housing savings must be used for housing upon maturity, otherwise the saver loses the right to take out loans.

### II. The Impact of Housing Savings

First, they help readjust private consumption patterns. By diverting part of private savings, they reroute some currency which has been withdrawn from circulation toward housing consumption. This expands the range of private consumption; brings about a more rational distribution of consumption between clothing, food, shelter, and transportation, and corrects abnormal private consumption patterns.

Second, they help to bring about a new mix of housing investors. The purpose of housing reform is to effect a transition to a system in which the state, enterprises, and individuals invest jointly in housing. Housing savings are necessary to the success of this transition; they are one step by which individuals become housing investors, because housing savings draw individual consumption funds into the sphere of housing investments.

Third, they help to increase consumer demand. Housing savings do not suppress consumption; on the contrary, they increase effective consumer demand. This is because housing savings are a special type of savings linked to housing loans. Housing loans convert private savings into housing investments, which makes up for the shortfall in consumption caused by increased savings. In addition, housing loans are a type of consumer credit. Not only can they convert past savings into private housing consumption, but repayment of loans on installment converts future private income into consumption. At the same time that this helps individuals to satisfy their need to purchase housing and increase social consumption demand, it also speeds the pace of housing construction, spurs development of the building materials industry, stimulates the real estate market, and promotes growth of the national economy.

### III. Factors and Measures Affecting Housing Savings

Attracting housing savings is the main method used by banks to raise housing funds. The key issue facing housing reform now is this: housing savings accounts are much too small to resolve the conflict between the huge amount of funds which must be invested in housing construction and the long period required to recoup this investment. I believe there are five main factors affecting housing savings:

1. Enterprises are not achieving good economic benefits. Enterprise economic benefits are now quite poor, which inevitably affects the growth of income for the government, enterprises, and individuals. With enterprises making little profit, the implementation of the public reserve funds causes enterprises to divert housing funds from production funds. Once this diversion takes place, production is sacrificed to maintain living standards, which places enterprises in more difficult straits still, and the growth of individual wages is limited. It is apparent that unless enterprises begin soon to achieve appreciably higher economic benefits, it is unlikely that use of the compulsory public reserve fund will become widespread.

2. Competition between organizations which finance housing. As the housing system is reformed, housing funds are gradually being diverted from production funds and other sources. Some private savings have also been converted to housing savings. This diversion and conversion of funds has broken down the former equilibrium of funds that banks enjoyed and brought about a new distribution of funds. In the face of this change, banks are competing to handle business connected with housing reform to minimize loss of funds. This makes it

difficult to transfer public reserve funds to the housing fund, and affects the growth of housing savings.

3. Policies are uncoordinated. First, the housing credit departments have not implemented independent accounting, are not responsible for their own profits and losses, and do not pay taxes independently. They act as departments within the specialized banks, instead, and are not independent legal persons. Second, the financial policies connected with housing reform are unclear, lacking in specifics, and conflicting. There is a particular lack of unified policies and regulations to govern the deposit of funds in housing savings accounts and the management of credit planning. Third, there is no clear firewall between housing credit made available for policy reasons as opposed to that offered in the regular course of business, and the amount of credit offered for policy reasons is very small. Housing finance institutions are happy to handle low-interest housing savings and use the funds for highly profitable commercial developments. Fourth, Banks demand high minimum deposits and long terms for housing savings accounts. They generally demand that the depositor first save up the equivalent of 50 percent of the loan, and this amount must be kept on deposit continuously for two years before a loan can be obtained. Furthermore, when housing is purchased with a loan, the purchase price is not the market price current at the time when the depositor's account balance reaches the margin demanded by the bank, but the market price current two years later when the loan is finally obtained. All of these factors seriously impede the stable growth of housing savings.

On the basis of this analysis, I believe the following: 1) If we are to effectively boost housing savings, we must vigorously promote the compulsory public reserve fund. If we are to achieve universal implementation of this fund, we must work to revitalize enterprises and improve their economic benefits. 2) Because currently existing urban housing savings are deposited mostly in the People's Construction Bank of China and the Industrial and Commercial Bank of China, the public reserve fund would have the greatest impact upon the funds of these two banks. For this reason, policy must clearly demarcate which funds from these banks would be transferred to the public reserve fund. 3) Real estate credit departments in the specialized banks must implement a management system in which they carry out independent accounting, take responsibility for their own profits and losses, and balance their own books. 4) If we are to set independent interest rates for savings and credit and encourage private individuals to increase housing savings, we must: a) give a higher interest rate for housing savings, generally not allowing it to fall below a level sufficient to provide a return on top of inflation, b) provide low-interest housing credit on favorable terms to depositors. In addition, we should also develop bonus housing savings and reduce down payments to a proper level. 5) In order to help banks develop housing savings accounts, there are a number of things we should do: we should not require banks to

place a reserve deposit on housing savings, we should carry out a guidance plan for the provision of housing loans on favorable conditions, we should establish a firewall between funds for policy-related and business-related loans, and we should manage them separately.

### **Zhou Daojiong Supports Housing Reforms**

92CE0346B Beijing JINGJI RIBAO in Chinese  
26 Feb 92 p 1

[Article by Xu Yongqing (1776 3057 7230) and Mao Tie (3029 6993): "Financial Support for Housing System Reform"]

[Text] After many years of exploration and experimentation, housing reform has gotten under way this year throughout the nation, becoming a very important topic. Housing reform is necessarily accompanied by financial measures. Concrete measures occasioned by housing reform, such as increasing rents, the payment of public reserve funds, and safety deposits, must be handled by banks. For this reason, we recently visited Zhou Daojiong (0719 6670 3518), president of the People's Construction Bank of China (PCBC).

### **Establishment of 1568 Real Estate Credit Departments**

As president of the 28th largest bank in the world, Zhou Daojiong has many responsibilities, but he still took time out the evening before leaving on a business trip to give us a warm reception. In response to a question about the role of PCBC in housing reform, Zhou Daojiong said, "PCBC was actively involved back in the mid-1980's when they first began with housing reform experiments. After several years of work, it would be fair to say that PCBC has established the largest and most complete housing finance system in the country: we have set up 1568 real estate credit departments at every level of the bank with the specific task of handling financing operations connected with housing reform, and we have established a three-tier housing reform service network composed of branches, sub-branches, and offices. In terms of the coverage of PCBC's housing reform finance operations, by the end of 1991, 1514 municipal and county governments had already delegated PCBC to handle housing reform finance operations. Our bank has been delegated as the sole administrator of housing reform finance operations by the three centrally administered cities of Beijing, Tianjin, and Shanghai; Jiangsu and nine other provinces and autonomous regions; Chengdu, Nanjing, Wuhan, and 24 other provincial capitals and cities under jurisdiction of counties. In terms of the size of these operations, by the end of 1991 the balance of housing reform savings deposits in our bank had reached 10.5 billion yuan, and a cumulative total of 47 billion yuan had been disbursed in the form of housing reform loans and product development loans. We have facilitated the construction of 256 million square meters of commercial housing and enabled more

than 5 million households to improve their living quarters. The phrase if you want to build housing, go see the Construction Bank' is on people's lips everywhere."

### **Developing Mortgage Loans for Individual Housing Purchases**

Zhou Daojiong told us that PCBC is going to vigorously develop mortgage loans for the purchase of housing by individuals. Building upon the foundation established over the past several years in this area, PCBC headquarters this year will organize the proper personnel to study and formulate mortgage loan procedures appropriate for conditions in China. In an orderly manner, the size of mortgage loans for individual housing purchases will be increased, and a complete set of business practices, management procedures, and operational regulations appropriate for individual credit needs will be established.

### **Housing Reform Loans To Jump 4 Billion Yuan This Year**

Zhou Daojiong said that this year PCBC has scheduled 4 billion yuan in new housing reform loans and 2 billion yuan in new commercial housing development loans. These will be used to support the development of housing reform and the real estate industry. These loans will be primarily directed toward individual housing purchases, fund raising for cooperative housing construction, and efforts to resolve problems with dangerously dilapidated structures. The focus will be on helping large- and medium-sized cities and large- and medium-sized enterprises to implement housing reform. The bank will aggressively extend policy-related housing credit and vigorously develop housing credit of a business nature. Organs of PCBC at every level must work with local governments to bring the circulation of funds into balance, concentrate policy-related housing funds, establish a three-tier housing funds system, and spur a healthy pattern for the circulation of housing funds. Most new hiring at PCBC this year will be to staff real estate credit departments at every level. At the same time, all personnel involved in housing reform finance operations will be trained in groups to promote use throughout the bank of the public reserve funds computer software. The plan is to establish a computerized management network for the entire PCBC housing reform finance system within two years or less.

Said Zhou Daojiong at the end, "PCBC has always been strong on investments in long-term credit, financing infrastructure development, managing real estate operations, and carrying out housing finance operations. We are confident that further deepening of reform will turn PCBC's housing finance system into a specialized finance system which is coordinated, stable, and efficient. Consolidating and developing PCBC within the context of policies which place top priority on housing finance will enable PCBC to become a powerful financial pillar supporting China's housing reform and housing construction."



## INDUSTRY

### Steel Production Shows 'Dramatic Rise' in 1992

HK/903031292 Beijing CHINA DAILY in English  
19 Mar 92 p 2

[By staff reporter Zhang Yuan: "State Steel Production Increases"]

[Text] China's production of steel and rolled steel saw a dramatic rise in the first two months of this year in part because of market stimulation, a senior official with the Ministry of Metallurgical Industry said yesterday.

But production is expected to decline somewhat from the second quarter because of low growth in steel-making related industries, such as coal, electricity and transport.

Zhang Zhixun, vice-director of the ministry's production department, said that total steel and rolled steel production hit 12.64 million tons in January and 9.85 million tons in February, up 17.7 percent and 20.8 percent respectively compared to last year. Output of pig iron was up 15 percent to 11.72 million tons.

In February, daily steel output soared to 216,700 tons, the highest possible figure permitted by the present capacity of the country's steel industry, Zhang noted.

Zhang attributed the strong increases to market stimulation, several new blast furnaces and improved external conditions for production.

In the first two months, domestic demand for steel and rolled steel maintained a steady rising momentum, which led to stable price rises for many kinds of steel products and less stockpiles for key steel makers.

At the same time, several large blast furnaces in major steelmaking plants have strengthened China's steel production ability and increased supplies of coal, electricity, raw materials and transport during that period have also helped, Zhang said.

Still, he feels certain that steel output will fall because many major steel plants will start their annual equipment inspections in April.

Meanwhile, the predicted lower growth rate of coal, electricity and transport will limit steel industry production even though a full supply of raw materials and energy resources could help maintain February's high production level.

Steel industry growth has already surpassed other related industries in the past two months.

During that period, the country's energy resource production dropped by 1.9 percent from last year while growth of electricity generation and transport increased only 10.2 percent and 4.2 percent respectively. These figures are far behind the output increases for steel and rolled steel, Zhang said.

In January, the world steelmaking industry as a whole registered a negative increase in production.

Last year, China's steel output hit 70 million tons, a record high for the industry, which made China the world's fourth biggest steel producer behind the former Soviet Union, the United States and Japan.

### Vehicle Output To Show Upward Trend This Year

HK/1703115292 Hong Kong ZHONGGUO TONGXUN  
SHE in English 0920 GMT 17 Mar 92

[Text] Beijing, March 17 (HKCNA)—China's car market has shown an upward trend this year with a planned year-round output of 620,000 vehicles. As big sales are expected, the stockpile of vehicles will decline.

The gross output value of vehicles last year posted a 30 percent rise mainly because of a relaxation of restrictions imposed by the state on the purchasing power of social groups, the lowering of prices for sedans, the execution of tax deductions and exemptions as well as the growth in fixed assets investment in society as a whole.

The continuing trend in the car market this year favours mini vehicles while modified mini vehicles, especially for the postal service, public security, banking, fire-fighting and environmental protection also expect a good market. Medium-sized vehicles show solid sales with sedans and jeeps with names such as Audi, Santana and Peugeot all very popular. Heavy duty vehicles have maintained a steady sales volume.

The demand for sedans during the Eighth Five-Year Plan period is estimated at between 800,000 and 900,000. The future trend will incline towards the domestic use of such vehicles. Car makers in Shanghai, Beijing, Tianjin and Guangzhou will place their emphasis on the production of sedan cars.

## POPULATION

### Feeding Increasing Population on Decreasing Land

92CED341A Beijing KEJI DAobao [SCIENCE AND TECHNOLOGY REVIEW] in Chinese No 2,  
10 Feb 92, pp 43-47

[Article by Chen Baoming (7115 4102 2494), Assistant Research Fellow, Natural Resources Composite Evaluation Committee: "Outlook and Response to the Future Correlation Among China's Land, Population, and Food"]

[Text] Population, resources, environment and development are the most important global problems that the world is facing today. Today, China is supporting the largest population in history at a time when it is in a most dire resources position. Therefore, assuming no likely regression in land resources, the question of just how great a population can China's land resources



supply, and what are the possibilities and means for increasing the ability of the land resources to sustain population have become matters of general concern to people in all walks of life.

### Forecast and Analysis of the Future

**1. Population will continue to grow, and available water resources will increase. The amount of land resources will decline, but quality will improve.**

China's population will continue to grow. Collated forecast data for all provinces (a moderate growth scenario) show total population as possibly reaching 1.275 billion by the year 2000, and 1.569 billion by 2025, both all-time highs for China's total population. At the same time, growth of the old age population and the working age population will peak.

If a nationwide drought occurs in 2000 (P = 75 percent), approximately 665.05 billion cubic meters of water can be supplied, 191.55 billion cubic meters more than today. In 2025, approximately 842.99 billion cubic meters of water will be available. In 2000, 482 billion cubic meters of water will be needed for irrigation, and in 2025, 521.3 billion cubic meters will be needed. Taken together with the water needed for other purposes, supply will fall short of demand. In 2000, China will have a 35 billion cubic meter water shortage, and in 2025, it will have a 33.5 billion cubic meter water shortage.

By 2000, the cultivated land area will have declined from the present 1.992 billion mu to 1.898 billion mu, and in 2025, it will decline to 1.853 billion mu. Cultivated land resources will be tighter. The quality of cultivated land will improve overall, the percentage of first rate land increasing and the percentage of secondary and tertiary land decreasing. A considerable potential still exists for increasing the cultivated land multiple cropping index. Forecasts call for an increase in the multiple cropping index to 1.53 and 1.57 respectively in 2000 and 2025. (It was 1.45 in 1985.) Therefore, despite a sustained decline in the cultivated land area, the total area sown to crops can be maintained and slightly increased.

**2. Only increased inputs and moderate population growth will permit self-sufficiency in principal agricultural products, and a gradual rise in the people's standard of living.**

By high inputs is meant diligent capital construction of agriculture, particularly of water conservancy projects, vigorous efforts to improve medium and low yield fields, improvement of agricultural production conditions, and ensuring needed agricultural funds as well as inputs of inorganic energy like chemical fertilizer, and pesticides. Investment in the capital construction of agriculture in 2000 and 2025 respectively should amount to 29.5 billion and 36.7 billion yuan (in terms of 1988 prices). Total inorganic inputs into farming should amount to  $421 \times 10$  to the 16th power joules and  $610 \times 10$  to the 16th power joules respectively. Total grain output should

be 510.64 million tons and 696.59 million tons respectively. Meat production will increase substantially, output reaching 33.15 million tons and 59.897 million tons respectively. This will include a decline in the percentage of pork and a steady rise in the percentage of beef, mutton, and poultry. Thus, the kinds of meat available will tend to be consistent with the resources available. By a medium level of investment is meant inability of the foregoing comprehensive measures to meet completely anticipated requirements, which will be mostly reflected in an approximately 10 percent shortfall in needed agricultural capital and inputs of inorganic energy. By a low level of investment is meant an approximately 20 percent shortfall in the foregoing norms.

Based on a moderate level of growth in which population control is somewhat effective, given high investment, grain should amount to 401 kilograms per capita in 2000 for possible attainment of the 400 kilogram goal that the state proposed. In 2025, grain should amount to 444 kilograms per capita. Attainment of the 450 kilogram per capita goal will be difficult. Under different levels of investment, the production capacity of land resources will rise to a different extent, however, the food supply will remain not very ample for a long time. If population control results fall short of expectation, or if investment is insufficient, the supply and demand picture will be extremely grim, the amount of grain per capita will not increase markedly during the next 30 to 40 years.

**An ideal grain output capability for China is 830 million tons; efforts must be made to control the peak population at about 1.6 billion.**

Assuming maintenance of the farm crop growing area at the 2025 level, and assuming the 2025 forecast values for the farm crop structure, i.e., balanced development of grain, cash crops, and livestock feed crops, and a 1.03 billion mu irrigated area, China's maximum grain production capacity works out to 830 million tons, or a yield of 398 kilograms per mu of farmland. This may be regarded as an anticipated approachable or attainable goal. Analysis of the upper limit of population that can be supported using 500 kilograms of grain per capita as a standard shows that China's cultivated land can support a population of 1.66 billion; however, analysis of the upper limit of population that can be supported at 550 kilograms of grain per capita shows that China's cultivated land can support a population of only 1.51 billion. Since realization of the maximum possible production capacity will require a long period of arduous efforts, and since population forecasts call for a peak of 1.65 billion in 2045 at a moderate rate of growth, and of 1.78 billion in 2065 at a high rate of growth, efforts must be made to hold China's population peak at about 1.6 billion.

**Response: Expansion of the Scale of Inputs; Increased Returns From Resources; Control of Population Growth; and Encouragement of Moderate Consumption**

**1. Effective expansion of the scale of inputs, the pattern of energy inputs gradually becoming primarily inorganic, emphasis going to areas in which returns on inputs are better by comparison.**

Since China is a country having a large population and relatively little arable land in which grain is in short supply and elasticity in demand for agricultural products is slight, we are forced to rely largely on the scale of inputs to increase outputs as a means of satisfying ever increasing demand. In order to realize anticipated outputs from a high level of inputs, the country must gradually increase funds for the capital construction of agriculture so that the total input of inorganic energy in farm production reaches  $421 \times 10^{10}$  to the 16th power joules in 2000, and reaches  $610 \times 10^{10}$  to the 16th power joules in 2025. The ratio between organic and inorganic inputs will change from the present 6:5 to 5:5 and 4:6 respectively, thus entering a stage in which inorganic inputs are paramount. This will include a chemical fertilizer energy input of  $185 \times 10^{10}$  to the 16th power joules, and  $244 \times 10^{10}$  to the 16th power joules. This converts to a net 32.52 million and 42.81 million tons respectively of chemical fertilizer in which the ratio of nitrate, phosphate, and potash can be no lower than 1:0.36:0.16. In regional investment terms, places for heavy investment should be Heilongjiang, Jilin, Shandong, Henan, Anhui, Jiangxi, Sichuan, Hubei, Hunan, and Jiangsu. With an increase in inputs and effective system regulation and control, a substantial potential exists for increasing the output-input ratio for marked returns. The state must properly concentrate agricultural inputs in these areas. This will play an outstanding role in assuring an upward leap in grain output.

**2. Halting the trend toward sharp decline in cultivated land; active development of wasteland suitable for agriculture; efforts to increase the multiple cropping index; and stabilization of the total crop growing area.**

Ensuring availability of the needed amount of cultivated land, and stemming the current trend toward sharp reduction of the cultivated land area requires guaranteeing the basic farmland area first of all. People's governments at all levels must designate basic farmland protected areas in which any encroachment to use land for nonagricultural construction is positively forbidden. Second is the planned reclamation of barren land resources. At the present time, approximately 200 million mu of barren land is available for reclamation throughout the country. Before 2000, some barren land having slight limitations may be selected for reclamation. Some of this land is concentrated on the Sanjiang Plain in Heilongjiang Province, in the eastern part of the Inner Mongolia Autonomous Region, in the red soil area of low hills in south China, and in the Li region of Xinjiang Province. A net 46 million mu of cultivated land can be reclaimed in these areas, but even so, a continued decline in the cultivated land area is unavoidable. The way to stabilize the crop growing area lies in moderate increase in multiple cropping. In temperate regions of the north, and in warm temperate zones in the north that permit the growing of a single crop with some season to spare or the growing of not quite two full crops, and in sub-tropical and semi sub-tropical parts of the south where two crops may be grown with some growing

season to spare, or where not quite three full crops can be grown, various kinds of intercropping can be done to develop two and three crops per year systems. In addition, the amount of land that is allowed to lie fallow can be reduced, and water conservation measures and dry-land farming techniques may be used. In the south, adjustments can be made to increase the amount of winter grown crops. Collation of figures from all provinces shows multiple cropping indices for 2000 and 2025 may be increased 8 percentage points (to 153 percent) and 12 percentage points (to 157 percent) respectively, thereby stabilizing the crop growing area nationwide, offsetting the effects that continued decline in the cultivated area creates.

**3. More capital construction of agriculture centering around the building of water conservancy projects; energetic transformation of medium and low yield fields; and improvement of agricultural production conditions.**

(1) Once ability to withstand exceptional floods has been increased, state investment should give priority to the building of new projects to provide more water for agriculture to ensure the amount needed for increased irrigation. In allocating limited investment, emphasis should go to the continued building of integrated projects (including reinforcing and dealing with dangerous and aging water conservancy facilities, as well as renovating, updating, and completing existing irrigation and drainage systems). This is more urgent and more realistic than the building of new projects, and it is also a way of increasing soil productivity that shows quick results. Another emphasis in investment should be the research and development of new water-conserving materials. New water conservation techniques should be promoted through the adaptation of general methods to specific circumstances as different natural and socioeconomic conditions in different areas require, and as major space-time changes in the distribution of farmland water conservancy and crops needs for water dictate. Water-conserving materials having different applications should be developed, particularly economical new materials, every effort made to produce materials that are inexpensive yet very effective.

(2) China faces very great difficulties in increasing the availability of water. Water conservancy construction has entered a difficult stage; thus, major efforts must be made to develop forms of agriculture that conserve water and store water. Quick action must be taken to spread ground surface or field water conservation techniques such as preventing leaks in irrigation ditches or use of pipes to carry water. Quickest possible action must be taken to change the situation that exists today in numerous places in which large amounts of precipitation cannot percolate into the soil but simply runs away because the soil's cultivated layer is too shallow or its structure is not good. More farmland capital construction must be done to preserve soil moisture, increasing the amount of precipitation stored in the soil.

(3) Soil productivity in China is very uneven. The intermediate yield field area and output accounts for more than one-half the national total. Intermediate yield fields generally consist of two kinds of soil. One is prime grade cultivated land of fine quality having no drawbacks from which yields are not as great as they should be because of few inputs, and nonintensive care. This is the case for less than 5 percent of intermediate yield fields. By increasing inputs and providing better care, yields can be raised very rapidly. Second is second grade land having slight drawbacks. Such fields suffer mostly from slight waterlogging, slight salinization, slight erosion, and gentle slopes. Simple improvement measures can eliminate the drawbacks of this kind of cultivated land, or the cropping pattern may be readjusted as appropriate, crops that are suited to the land grown there. Marked yield increases can thus be obtained fairly easily. Therefore, the main direction of attack to improve cultivated land productivity must be on intermediate yield fields. Under present circumstances, a main attack on intermediate yield fields can be carried out without much investment, and will produce both quick results and marked economic returns, however, insofar as circumstances permit, low yield fields must also be transformed. In remote and impoverished areas, where low yield fields predominate, in particular, it is even more important to link support for the needy to efforts to transform and control nature. In addition, special projects should be set up for this purpose that are made a part of national plans to assist the needy.

**4. Optimization of the agricultural pattern for a gradual regionalization and commercialization of production, using the building of eight large national level commodity grain bases as a basis for building a regional system in which grain supply and demand are balanced.**

(1) For the country as a whole, optimization of the agricultural pattern must be based on realities as they exist in the country, a policy of self-sufficient production and regionalized, commercialized production being pursued in tandem. Provinces having requisite soil conditions would be required, insofar as possible, to achieve self-sufficiency or near self-sufficiency. At the same time, the state would select areas having outstanding soil conditions for the building of a number of national-level commodity grain production bases that would accelerate the development of grain production to solve the grain problems of large cities and of provinces lacking self-sufficiency conditions. Analysis shows the areas capable of becoming national level commodity grain production bases to be as follows: The low Huabei Plain, the Jianghuai Plain, the Dongting Hu Plain, the Boyang Hu Plain, the Jiangnan Plain, the Songnen Plain, the Sanjiang Plain, and the Sichuan Basin. All these areas have suitable natural ecosystem conditions, and fairly ideal light, heat, water, and soil resources, thus, yields higher than the national average may be obtained here for an investment that is lower than the national average. In terms of long-range development, these areas are also in an ascendant period. By tilting limited agricultural

investment in the direction of the aforementioned areas, the state can make fullest advantage of the resources they have and can quickly increase the level of grain production, reaping marked returns in the form of quick results and high economic returns for little investment. These areas can reach a relative high soil resources carrying capacity by 2000 and 2025.

(2) In relying on the aforementioned national level commodity grain bases, zones for coordination of grain shipments into and out of various provinces should be established, the balance between supply and demand for grain being solved on the basis of individual provinces surplus or shortage position, the central government providing necessary direction and coordination. Emphasis would be given to the building of a rational benefits sharing mechanism in order to keep up the interest of both provinces having commodity grain bases and grain-short provinces. The extent to which grain-short provinces partake should be decided on the basis of their investment in the building of commodity grain bases, shortfalls being subsidized on the basis of historical circumstances, no subsidies provided for excess expenditures, and all savings being retained by those making them. In addition to providing needed support funds to provinces in which grain bases are located, the state will have to allocate grain subsidy funds directly to enable these provinces and producers to derive greater economic benefit in order to keep up their interest in growing grain.

**5. Three major strategic shifts required in the building of forestry: comprehensive development of resources in sub-tropical Eastern Hill regions; and building strategic reserve bases for large scale agriculture**

Substantial achievements have been scored in the building of forestry in recent years, but problems with excess felling have yet to be reversed completely. Increasingly, resources are verging on drying up. Current felling reserves total only 2 billion cubic meters. In south China where forest areas are concentrated, reckless cutting and denudation is more serious. The situation is extremely grim. Both in order to protect the ecological environment and to be able to supply timber, firm grip on the administration and management of existing forest areas must form the basis for implementation of the three shifts in the building of forestry (shift in forestry orientation from the economic to a combination of the economic and the ecological, a shift from the temperate zone to the sub-tropical zone, and a shift from natural forests to man-made forests). The point of convergence of the three great strategic shifts is the sub-tropical eastern hill region of south China. In this region, the forest growth rate reaches 4.0 to 6.6 percent for a marked advantage in speed of growth. As a result of the destruction of 300 million mu of forests in this area where ground cover has degenerated into brush and grass-covered slopes, approximately 85 percent can be afforested. Twenty years from now, standing tree reserves there can amount to 2.7 billion cubic meters, approximately double the 1.37 billion cubic meters of standing



reserves now in the area. Therefore, comprehensive development of the sub-tropical eastern hill and mountain region resources should be carried out with all possible speed, a quick growing, high yield lumber forest, shelter forest, economic forest, and firewood forest system built for the all-around development of a three dimensional agricultural pattern that combines forestry, animal husbandry, farming, and fishing. Spurred by the building of forestry, this region can become a strategic base for large scale agriculture in China.

**6. More production of livestock grass and feed for the building of emerging commodity livestock product bases to advance development of animal husbandry.**

(1) Farming Area Livestock Industry: Building of a Ternary System That Includes Grain, Livestock Feed, and Cash Crops in Active Development of Livestock Feed Production.

(2) Grasslands Pastoral Area Livestock Industry: A combination of adaptation and transformation, selectively developing man-made and partially man-made grasslands, the development area gradually reaching 100 million mu.

(3) The Southern Hill Region Livestock Industry: A combination of forestry and animal husbandry, and farming and animal husbandry, man-made and partially man-made grasslands grown beneath trees, among trees, and around the fringes of forests in the building of beef cattle and milk cow production bases.

(4) Combination Farming and Pastoral Areas: Using farming and animal husbandry in combination, and mountainlands and plains in combination for the development of a mixed farming-livestock industry in the building of emerging commodity livestock product bases.

**7. Rely on agricultural science and technology, and emphasis on economization of expenditures in the development of resources-conserving agriculture.**

Agricultural science and technology are mainstays for future development of agriculture. Without science and technology, it is impossible to produce more agricultural products to satisfy the constantly increasing needs of mankind in a situation of steady decrease of cultivated land. In the application of science and technology, the effective experiences of the masses must be summarized for promotion; second, is the translation of achievements in agricultural science and technology into practical use; and third is active development of new applied techniques. The key lies in finding carriers to pass along science and technology. The foregoing measures are, in fact, carriers that can introduce agricultural science and technology into the agricultural production system to produce resources-conserving agriculture that conserves land, water, energy, and time. Numerous practical agricultural techniques already exist for the conservation of resources, but not nearly enough has been done to promote their application. In addition to the lack of an effective promotional system and insufficient promotional personnel, the relatively poor returns earned from

the growing of grain and the lack of inherent motivation for growing it are also major reasons for no promotion. Thus, more emphasis must be placed on the economization of expenditures in the process of developing conservation-type agriculture. Examples include the low pressure pipe irrigation techniques currently widely used in northwest China, northeast China, and on the plains of the Huang He and the Huai He requiring an investment of only about 45 yuan per mu. The peasants very much like this technology, which may become the main farmland water conserving irrigation technique used in the country. This shows that only low cost, practical techniques will be readily accepted by the peasants. They provide the peasants with substantial real benefit, thereby enabling the invigoration of agriculture through science and technology, and the development of resources-conserving agriculture to become conscious choices of the peasants.

**8. Strict control of population growth; improvement of population quality; correct guiding of the trend of consumption; and improvement of the modest consumption mechanism.**

(1) The key in solving China's population problem lies in controlling the number of people and improving population quality. The key to controlling the number of people lies in controlling the rural population. At the same time, investment in manpower resources must be given serious attention to improve population quality, using labor resources to take the place of financial and land resources, and increasing effective animate labor so to reduce investment in inanimate labor.

(2) Food consumption has increased rapidly in recent years, the speed of increase in food consumption (including meat, poultry, eggs, milk, and alcoholic beverages converted to grain terms) far exceeding the increase in grain production. Thus, control of food consumption demand in view of the country's circumstances is necessary. A scientifically formulated dietary goal model, correct guidance of the trend of consumption, and improvement of the modest consumption mechanism are required.

**Footnote:**

This article is based on relevant reports in the Agricultural Zoning Committee project titled, "Study of the Production Capability and the Amount of Population That China's Land Resources Can Support," which was sponsored by the writer et al.

## TRANSPORTATION

### Aviation Fuel Imports Up Sharply in 1992

HK1503064092 *Beijing CHINA DAILY (BUSINESS WEEKLY)* in English 13 Mar 92 p 1

[By Wang Wenli: "China To Buy More Aviation Fuel"]

[Text] China will buy more aviation fuel from the international market to fill the gap in domestic supplies this year.

The only civil aviation fuel supplier in the country, the China Aviation Oil Supply Corporation (CAOSC), has to buy 500,000 tons of fuel from the foreign market to meet domestic demand, said Bai Zhiyan, general manager of the corporation.

The corporation has to provide 1.6 million tons of aviation fuel this year, an 18.5 percent increase from last year's 1.35 million tons, but it can only get 1.1 million tons from the State. The quota is approximately the same as last year.

Last year CAOSC imported 20,000 tons of aviation fuel from Singapore.

"Some of the off-quota fuel supply depends on the extra work of Chinese refineries. Last year they helped us to fill most of the 250,000-ton gap, but now we have to find someone else."

Bai forecast that next year half of the fuel needed would be off-quota because the quota remains the same while the aviation industry keeps increasing.

"The problem is not whether we want to import more fuel. We have to buy more because we cannot expect more fuel from our domestic suppliers," the general manager said. "Now the problem is finding enough vessels to carry it, and constructing port facilities to receive it."

CAOSC has brought two 1,000-ton oil vessels to import aviation fuel, and also built several ports to receive the imported fuel. But the company is still unable to receive any big quantities of imported oil.

Bai said that the company's need for imported aviation fuel increased beyond expectations, and that an increase in import capacity is one of the main objects this year.

The fuel supply systems of the biggest airports, such as Beijing Capital Airport, Shanghai Hongqiao Airport, Guangzhou Baiyun Airport and Xiamen Gaoqi Airport, were designed to satisfy the need for the next four years, but they are finding it difficult to meet current needs.

China's civil aviation industry has enjoyed an annual increase of about 20 percent in recent years, but the fuel supplying system is only planned to increase by 13.4 percent in the next five years. Bai, the head of CAOSC, complained that too much of his company's profit was taken in taxes. He warned that if his company failed to keep up the fuel supply because of the lack of basic facilities, the whole aviation industry would be affected.

**Statistics Bureau Reports Railway Figures for Jan**  
HK0803082592 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 8 Mar 92 p 3

["Statistics" column compiled by Wang Xiangwei:  
"Railway Transport"]

[Text] January's freight volume totalled 217 million tons, a rise of 1.4 percent over the same month last year, according to the State Statistics Bureau.

A report said that rail freight maintained the same level as last year at 122 million tons, while truck freight geared up 3.9 percent to 49 million tons.

Freight by boat gained 3.2 percent to 46 million tons while air freight soared 20.5 percent to 40,000 tons.

As a result, in January the turnover of freight volume—an important indicator of productivity—amounted to 199.82 billion ton-kilometres, an increase of 0.3 percent over the same month last year.

In the breakdown, the turnover of rail freight inched up 0.2 percent to 92.12 billion ton-kilometres while the turnover of truck freight increased 0.6 percent to 2.96 billion ton-kilometres, up 0.6 percent.

The turnover of boat freight declined 2.1 percent to 104.66 billion ton-kilometres while the turnover of air freight jumped 27.6 percent to 85 million ton-kilometres.

Meanwhile, January's volume of passengers stood at 509 million people, an increase of 10.3 percent over the same month of last year.

Of the total, 79 million people travelled by rail, an increase of 4.1 percent, while 414 people travelled by bus, a rise of 13.8 percent.

Fourteen million people travelled by boat, down 0.3 percent, while 1.55 million flew airplanes, up 13.8 percent.

As a result, the turnover of passenger volume totalled 45.15 billion person-kilometres, up 11.2 percent.

Of the total, the turnover of passengers by rail increased by 10.9 percent while the turnover of passenger volume by bus rose by 11.5 percent to 18.06 billion person-kilometres.

### Jiangsu Boosts External Shipping Businesses

OW1703152192 Beijing XINHUA in English 1304 GMT 17 Mar 92

[Text] Nanjing, March 17 (XINHUA)—Jiangsu Province in eastern China promotes its shipping businesses by developing ocean shipping, labor and ship exporting, and setting up Sino-foreign joint and cooperative ventures.

In addition to raising the handling capacity of the provincial shipping corporation, the province has set up some new shipping companies in some of its new port cities.

In the face of decreasing domestic ship orders and competition from other shipping manufacturers, the province turned to producing varieties of special and export-oriented ships.

The ten shipyards in the province sold ships to Singapore, Indonesia, Japan, Thailand, Hong Kong and Macao, earning 15.53 million U.S. dollars last year.

The provincial shipping corporation has also taken an active part in sending people abroad to contract shipping projects.

## PUBLICATIONS

### New Chinese-English Dictionary Published

OW2702154092 Beijing XINHUA in English  
1428 GMT 27 Feb 92

[Text] Shanghai, February 27 (XINHUA)—A new dictionary entitled *A Comprehensive Chinese-English Dictionary* which was published in Shanghai went on sale today, both at home and abroad.

The dictionary, which has more 100,000 entries, covers over 68 subject areas, including philosophy, social and natural sciences, and technology.

The four million-word dictionary includes a large number of new words and phrases which have emerged since 1979 when China instituted the policy of opening to the outside world.

Entries in the dictionary include words and phrases related to politics, economics, trade, science and technology, education, sports, public health, international law, tourism and advertising.

A group of over 30 experts used 116 different dictionaries as a reference for compiling the new dictionary, according to Zheng Quodi, the director of the Shanghai Foreign Language Education Press—the publisher.

## AGRICULTURE

### Meat Output Surpasses 30 Million Tons in 1991

OW1003160892 Beijing XINHUA in English  
1440 GMT 10 Mar 92

[Text] Beijing, March 10 (XINHUA)—China's 1991 meat output exceeded 31.44 million tons, thereby surpassing the state target of 30 million tons per year by the end of the Eighth Five-Year Plan period (1991-1995).

The latest statistics show that the country's meat output for 1991 rose by 2.88 million tons, or 10 percent compared with that of the previous year. The production of pork, beef and mutton rose by 8.38 percent to 27.23 million tons, while the output of domestic fowl exceeded 3.95 million tons, up 22.4 percent.

The Ministry of Agriculture reported that the country's meat has risen at an average annual rate of 1.77 million tons in the past 13 consecutive years. And, the meat output for 1991 represented a 3.67-fold increase over the figure for 1979.

According to the ministry, the continued steady development of the country's animal husbandry industry over the past 13 years can be attributed to the implementation of scientific and technological advances. For example, over 794,000 tons, or 27.6 percent, of last year's meat output resulted from the use of scientific and technological advances.

In addition, the better services offered by agricultural departments, and last year's bumper grain harvest played important roles in the development of the country's animal husbandry industry.

### Six Farm Bases To Expand Production Planned

HK1703052692 Beijing CHINA DAILY in English  
17 Mar 92 p 2

[By Hong Liu: "Six Extra Farms To Sustain Expansion"]

[Text] Top decision-makers have drawn up a blueprint to guarantee the nation's agricultural growth in the next decade.

Six farm bases will be built to expand production of grain, cotton, sugar, rubber, nonstaple food and export products, according to a recent national conference attended by directors of provincial agriculture bureaux.

The target yearly growth rate for agricultural output value have been set at 5.9 percent by 1995 and 3.75 percent by 2000. The new farm bases are expected to play an important role in attaining this growth.

The provinces of Heilongjiang, Liaoning, Jilin and Inner Mongolia and Xinjiang Uygur autonomous regions have been chosen for the grain production base, which will involve developing a total of 3.4 million mu (226,600 hectares) waste land into farmland and upgrading another 29.26 million mu (1.95 million hectares) of low-yielding farmland during the coming six years.

The programme is designed to increase grain output by five million tons in 1998 as compared with 1990.

The cotton production base will be developed in Xinjiang Uygur Autonomous Region and provinces of Hubei, Hunan, Jiangsu and Anhui. This development plan calls for converting 3 million mu (200,000 hectares) of waste land into cotton fields and renovating 3.74 million mu (249,330 hectares) of low-yield fields between 1992 and 1998.

Development of the sugar production base will focus on installing sugar processing equipment in the country's existing sugar producing areas in Northeast and South China.

Development of the rubber production base will involve constructing high-yield rubber plantations covering a total of 1 million mu (66,666 hectares), planting 180,000 mu (12,000 hectares) of new rubber trees. The plan is expected to boost the country's rubber output to a total of 400,000 tons.



### **Snow, Rain Help Relieve Drought in North**

OW 2103100992 Beijing XINHUA in English  
0908 GMT 23 Mar 92

[Text] Beijing, March 23 (XINHUA)—Falls of snow and rain in drought-stricken areas of northern China between the end of February and mid-March have helped relieve the prolonged drought in Henan, Shandong and Shaanxi Provinces, according to the State Anti-Drought Office.

However, large areas of north China are still suffering from drought. By March 18 there were over 13.9116 million ha [hectares] of farmland and 46.626 million ha of pastureland stricken by drought in this area.

Since the beginning of March, snow and rain have hit the central part of Henan and Shandong, and the south and central parts of Shaanxi ranging from 25 mm to 50 mm.

But there are still over 2.66 million ha of winter wheat suffering from drought in the three provinces, and there is a shortage of drinking water in some areas.

The drought afflicts 3.3973 million ha of farmland in Hebei Province and 2.6 million ha in Shanxi Province, and 30 million ha of pastureland in the Inner Mongolia Autonomous Region.

### **Anhui Water Conservancy Project Uses World Bank Funds**

OW 2003103292 Beijing XINHUA in English  
0952 GMT 20 Mar 92

[Text] Hefei, March 20 (XINHUA)—In east China's Anhui Province, the Pishihang-Chaohu water conservancy project has been built by using World Bank loans and it plays an important role in protecting and promoting the local economy.

The water conservancy project, located near Chaohu Lake, the country's fifth largest fresh water lake, is the only project of its kind to be funded by the World Bank. The World Bank provided 17 million U.S. dollars of low-interest loans and 73.7 million special drawing rights for the project. That plus domestic investment brought the total to 980 million yuan.

The project was started in 1986 and completed in late 1991. It covers 13 counties in the Chaohu area, which have 8.22 million resident farmers.

By using World Bank loans and state funds, all the water conservancy facilities in the Pishihang water conservancy area have been renovated. In addition, some 42,000 permanent irrigation facilities, 269 flood drainage facilities, and 1,030 bridges have been built.

The new water conservancy project played an important role in protecting major cities during the serious flooding last year. It was directly responsible for preventing a loss of 350 million yuan worth of properties.

The water conservancy project has also benefited a total of 690,000 ha [hectares] of cultivated land in the area. The grain output in the water conservancy area reached 4.34 million tons, 16 percent higher than before 1986.

### **Grain Market Opens Year-Round in Hubei Province**

OW 403103992 Beijing XINHUA in English  
1020 GMT 14 Mar 92

[Text] Wuhan, March 14 (XINHUA)—The government of central China's Hubei Province has decided to keep open the market for surplus grain, a commodity under state monopoly, all the year round.

The decision allows any grain dealer, private or collective, or enterprises in other lines of business, to buy or sell grain in the province. Clients from outside the province can buy grain from farmers on their own or ask local government grain departments to do it for them.

State-run and cooperative commercial units are called on to continue to play their roles as principal grain dealers and ensure the fulfillment of state grain purchasing quotas.

The present 65 grain wholesale markets will be expanded and a number of specialized markets will be built or expanded to include the functions of purchasing, processing, packing, storing and transportation, the officials said.

### **Jiangsu's Agricultural Development Program Appraised**

OW 3003113292 Beijing XINHUA in English  
0936 GMT 30 Mar 92

[Text] Nanjing, March 30 (XINHUA)—The first phase of a program aimed at carrying out comprehensive agricultural development in the areas in east China's Jiangsu Province drained by the Yellow, Huaihe and Hashe rivers passed state appraisal Sunday.

The three-year program, which cost 1.08 billion yuan, covers 23 counties and cities, and involves 800 development projects.

By the end of last year the province had improved 465,000 ha of medium and low-yield farmland, and opened up 14,000 ha of waste land, increases of some 27 percent and seven percent, respectively, over the state quotas.

This success has resulted from the construction of more water-conservancy works, spreading of new agricultural technologies and development of a diversified economy in the province.

In the past three years the grain output in the areas to be developed has increased by over one billion kg, and the per capita net income there has risen by 177 yuan.

### Shanghai Farmers Have Highest Income in Nation

OW1703234892 Beijing XINHUA in English  
1445 GMT 17 Mar 92

[Text] Beijing, March 17 (XINHUA)—The average annual income of Shanghai farmers for the first time surpassed 2,000 yuan (about 385 U.S. dollars) in 1991, making them the highest-paid group in rural China, statistics show.

Beijing-area farmers and farmers in Zhejiang Province come second and third in their average incomes, according to materials from the National Statistics Bureau, the average annual income of Beijing farmers reached 1,422.37 yuan while that of Zhejiang farmers rose to 1,210.77 yuan.

In fourth place come Tianjin-area farmers, with an income averaging 1,168.53 yuan, and fifth are the farmers of Guangdong Province, with 1,143.06 yuan.

Following them in order come Jiangsu, Liaoning, Fujian, Shandong and Jilin Provinces.

The average annual farmers' income in nine provinces, autonomous regions and municipalities, including Beijing, Zhejiang, Guangdong and Tianjin, increased by over 50 yuan compared to the previous year.

The fastest income growth is shown in eastern China's Shandong Province, at 12.3 percent last year, according to the bureau.

### Farmland Shrinks in Shanghai

OW1603041392 Beijing XINHUA in English  
0332 GMT 19 Mar 92

[Text] Shanghai, March 19 (XINHUA)—A recent investigation report shows that last year, Shanghai lost 2,231 ha of farmland, 1.7 times over the total farmland lost in the previous year.

The rapid decrease of farmland in Shanghai is due to the rapid extension of industrial, commercial and trade facilities in the suburban areas and especially the construction of the Pudong Development Area.

In Chuansha County alone, over 790 ha of land were requisitioned last year for the development of Pudong, whose designed development area stands at 350 sq km.

Road building was counted as another factor in the loss of farmland. Last year, nearly 1,000 ha of farmland were occupied by new roads.

Building or expansion of rural and township enterprises also resulted in a loss of 490 ha of farmland in Shanghai's suburbs, 1.4 times over the previous year.

On the other hand, blind construction of residential houses in the suburban areas, which used to be a main factor for the loss of farmland, has been checked. Land used for this purpose decreased by one-third last year.

Experts on rural problems said that the reduction of farmland is an inevitable outcome of the economic development. They urged that effective measures be applied to maintain a sufficient and high quality food supply for Shanghai residents.

### Shanghai's Livestock Production Increases Sharply

OW2303224592 Beijing XINHUA in English  
1451 GMT 25 Mar 92

[Text] Shanghai, March 25 (XINHUA)—In 1991, for the first time in the history, the output value of animal products—meat, eggs and milk—in Shanghai's suburban counties surpassed that of other agricultural products, including grain, vegetables and fruit.

The municipal Statistics Bureau recently released figures showing that the city's output value of animal products during 1991 exceeded 3.33 billion yuan, a figure 9.4 percent higher than the output value for other agricultural products.

According to officials, the figures indicate that the production of animal production has evolved into an independent industry in the heavily populated suburbs of Shanghai where land is scarce.

They added that the increased supply of such products has greatly enriched the diet of local residents.

In 1991, the city's per capita consumption of meat reached 24.5 kilograms (kg), poultry 9.6 kg, eggs 12.1 kg and milk 25.1 kilograms—consumption patterns reported to be near current levels in Japan.

Officials predict that during 1992 city residents will consume 3.5 million pigs, 50 million fowl, 11,000 tons of eggs and 237,000 tons of milk.

### Shandong Views Livestock Production Achievements

SK0604140192 Jinan Shandong People's Radio  
Network in Mandarin 2300 GMT 5 Apr 92

[Summary] The speed and economic results scored in developing livestock production over the past few years have ranked Shandong Province first in the country. According to the statistical data compiled by the departments concerned, the province's livestock has increased over the past 13 years. The 1991 number of livestock raised by households throughout the province reached nearly 30 million head, and the number of livestock slaughtered reached 33.8 million head, a 48.4 percent increase over 1990. Poultry and eggs reached 1.56 million tons and the output value of poultry production ranked the province first in the country. The total output of meat, eggs, and milk showed a 3.5 fold increase over 1981.

### Sociological Effects of Underpaying Intellectuals

92CM02114 Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 137, 13 Jan 92 pp 38-47

[Excerpt] [passage omitted] The "inversion" of income distribution between mental work and manual labor not only does not conform to the socialist distribution principle of equal pay for equal work, but also violates the rule of the commodity economy that the value of labor depends on the amount of labor capital invested and the degree of labor scarcity. This objective reality is now having a pronounced effect on the value assumptions underlying people's thought and actions, and on the entire society's rate and direction of mobility. The primary manifestations are:

One, early deaths and large-scale brain drain. According to statistics, the life expectancy of China's mid- and upper-level intellectuals is 10 years less than the average life expectancy of the nation as a whole. Among mid- and upper-level intellectuals who have died, more than half have been between the ages of 40 and 60.<sup>11</sup> In 1988, nine teachers at the China Science and Technology University with mid- or upper-level positions died. The oldest among them was only 55, the youngest was only 40, and the average age was 49. The main reason why talented people are "dying in the prime of life" can only be that the work load and household burdens are too heavy, and compensation and income are too low. Clearly, the grim reality of the "inversion of mental and manual income" has made the everyday conditions of reproduction of mental work increasingly difficult. Another consequence of this has been that the brain drain phenomenon has spread as rapidly as a contagious disease. According to a special survey by Shanghai's department of higher education, from 1988 to August 1989, 3,227 teachers left the city's 51 institutions of higher education, accounting for one-tenth of the total number of teachers covered by the survey. Of these, 70 percent went abroad, and most of them were pillars of teaching and scientific research. In addition, young and middle-aged teachers under age 40 accounted for 78.9 percent of the total number who left. Furthermore, in the past 10 years more than 500 doctors and nurses from Shanghai's six municipal hospitals have left the country to study, do advanced study or visit relatives, and have overstayed the limit and failed to return.<sup>12</sup> Therefore, informed people often warn that if equitable and effective measures are not adopted quickly, within three to five years serious personnel shortages will occur in Shanghai's educational, scientific research and health professions.

Two, the trend of thought that demeans knowledge and mental work has never been so powerful. Previously, Shanghai's urban and rural survey team announced the results of one survey: At that time, 24 professional categories were popular among Shanghai people. Topping the list were taxi drivers, in second place were hotel and restaurant workers, and college teachers didn't even qualify to rank at the bottom (For a meaningful comparison, a concerned department in Taiwan conducted a

similar survey, whose results showed: Among Taiwan's 154 professional categories, the three most prestigious, most highly valued and top-rated professions were scientist, college president and college professor. Chauffeur was rated 119th, hotel and restaurant workers were rated 133rd<sup>13</sup>). What is even more distressing and shocking is: During these years, among primary and secondary school students and even college and graduate students, there was a chill wind of boredom with school, and dropping out of school. Not long ago, a responsible person in China's education commission revealed at a conference that 30 percent of middle school students and in some areas as many as 60 percent were bored with school. In one year, the number of drop-outs was an enormous 6 million.<sup>14</sup> This sort of situation was particularly pronounced in the countryside. According to another survey, in 1988 more than 6,000 college students and more than 2,000 graduate students dropped out nationwide.<sup>15</sup> Beginning in 1987, graduate student enrollment took a nosedive, and the number of students taking graduate school entrance exams fell by 15 percent from 1986, and the number of people in the work force fell by 13 percent.<sup>16</sup> The adult pool of college candidates has also shown a downward trend, and in Shanghai, adult college entrance candidates fell from 78,000 in 1985 to 17,000 in 1987.<sup>17</sup> It can be said without any exaggeration that society's enthusiasm and motivation for seeking knowledge and promoting culture is now rapidly declining.

Three, deteriorating quality of China's population. Recently issued materials on China's census show: The absolute number of China's illiterates and semi-illiterates is 180 million, which accounts for 15.88 percent of the total population (But people point out that "China's anti-illiteracy standards are too low" and "using standard international calculations, our adult illiterates may be more than 10 percent higher."<sup>18</sup>). The results of a random survey were: Among those who considered themselves at primary school literacy level, 80 percent had not yet overcome illiteracy; among those who considered themselves at middle school literacy level, 32 percent had not yet overcome illiteracy; among those who considered themselves at high school literacy level, 20 percent had not yet overcome illiteracy; even among those who considered themselves at college and university literacy level, 22 percent had not yet overcome illiteracy.<sup>19</sup> As a result, people estimate: "China has at least 800 million illiterates!"<sup>20</sup> The discouraging effect produced by the "inversion of mental and manual income" will make this sort of situation difficult to turn around quickly and overcome effectively.

Decline in educational quality is always related to a decline in spiritual quality. Uncivilized practices, the spread of ignorance, moral depravity and ideological confusion have become serious social problems in a significant number of areas. For example, the "revival" and spread of concubinage, bride-selling, spouse-swapping, prostitution, gambling, theft, drug-taking, elaborate burials, arguing and fighting, feudal superstitions, female infanticide and abuse, unplanned births



and other kinds of backward, outworn, and criminal phenomena are not unusual in some culturally backward areas.

Four, impediments to increasing the quality and effectiveness of mental work. Because most mental workers do not earn a generous salary, it is difficult for them to obtain necessary development materials (such as books and other information) promptly and in sufficient quantity. At the same time, because of meager financial resources, it is difficult or even impossible for them to transfer tedious housework over to society. It is understood that young and middle-aged intellectuals in the scientific research units of some colleges spend more than four hours a day on housework, and some even spend more than six hours. All of these factors unavoidably hamper and obstruct mental workers' advancement of knowledge and creation of positive results. (passage omitted)

#### Footnotes

11. GONGREN RIBAO 23 Dec 1988.
13. XIANGGANG SHIBAO 29 Aug 1988.
14. SHANGHAI JIAOYU No 2, 1990.
16. BEIJING QINGNIAN BAO 4 Jun 1988.
17. GUANGMING RIBAO 9 Aug 1988.
18. ZHONGGUO FUNU No 1, 1991.
19. *China's Crisis and Reflection*, p. 131.
20. POLICY AND INFORMATION No 7, 1989.

#### Profitable Good Old Connection Network Criticized

92CM0224B Beijing FAZHI RIBAO in Chinese  
11 Feb 92 p 3

[Article by Xue Tao: "A Non-Negligible 'Deformed Baby' Phenomenon"]

[Excerpt] According to reports, in Yiyang Prefecture, Hunan Province, since the beginning of activities of punishing corrupt officials and promoting clean government, there has occurred a strange phenomenon: After being punished by disciplinary actions, some party-member cadres give up party membership and concentrate on business activities. As a result, while suffering setbacks politically, they make a great deal of money in the economic sphere. According to statistics, since 1989, in this prefecture, disciplinary actions have been taken against 446 government employees according to party, government discipline, regulations, and laws. Of these employees, 113 have left to engage in business. Among these "money-grabbing" people, 61 were party members, 28 were section-level cadres, and 15 were office-level cadres. Now, they have all become millionaires.

On the surface, it seems that these gentlemen did not lose their heart after committing mistakes, and that instead of becoming pessimistic they thrust themselves into the great economic tides, this does not seem to be a bad thing. However, a closer look shows that these gentlemen did not make their money through honest work, but through various discipline-violating and illegal means. The purpose of this article is to call on the departments concerned to focus attention on this phenomenon.

I believe, the phenomenon of "losing a government position and getting a gold baby in return" is, fundamentally speaking, a "deformed baby" born as a result of the combination of such factors as the unhealthy tendencies and corruption in party, government and social practices, as well as the incompleteness and imperfection of many policies, laws and regulations. The reason they did not do well in their political careers, but can prosper in the economic sphere is because of their special characteristics. They have all been in government, and have each held power in a certain field or a certain region. With the "authority" accumulated over many years, they can reach people at the top levels, move things around at the middle levels, and have connections at the lower levels. With a closely knit net of connections, they can move around smoothly in government, when they decide to make some money. They know very well which matters can be settled through their connections, which matters have to be settled through bribery, and which matters have to be smoothed along at a certain juncture. Therefore they accomplish things well and fast. Furthermore, since they have been in government, they have some understanding of the various policies, laws and regulations. With some study and with their practical experience, they know extremely well which policy, law, or regulation has loopholes to be exploited. Therefore, they are at home playing tricks and making money, just like a dragon playing with water. In addition, since they have been in government and have suffered setbacks politically, they have learned lessons from their bitter experiences, and have become more "capable." Therefore, in the process of breaking discipline and laws, they tend to use covert means and leave no traces. Thus, you become angry at seeing what is happening but cannot find real "evidence," while they are safely making their big money. This can be said to be a case of "getting everything without any trouble."

Doubtlessly, the phenomenon of "deformed baby" does great harm to the style of the party and government. The damage has much worse impact than ordinary economic crimes do. (passage omitted)

#### Violating Family Planning Law by Phoney Divorce

92CM0224C Beijing FAZHI RIBAO in Chinese  
26 Feb 92 p 3

[Article by Peng Xuekun: "It Is Necessary To Pay Attention to the Phenomenon of Divorce for the Purpose of Violating Rules of Family Planning"]

[Excerpt] [passage omitted] People who have been seriously poisoned by the feudalistic ideas of "leaving behind offsprings" and "more children means more happiness" try every means to have extra births. Presently, some usual methods are no longer in vogue, instead there is "phoney divorce" for anti-family planning purposes.

Phoney divorce often takes the form of "early divorce." Such divorce refers to a couple who start divorce proceedings during the early period of the wife's pregnancy in order to have a second birth. As the plaintiff in the proceedings, the wife makes up various shortcomings of the husband, initiates divorce proceedings on grounds of marital incompatibility at the people's court and firmly demands a divorce. As the defendant, the husband consents to the divorce and firmly demands custody of the child (meaning the first child). After the divorce, the couple separates their residence permit, food rations etc. The husband lives with the child, and the wife lives alone temporarily. After the wife gives birth and gets a residence permit for the baby, the couple re-marries. The two parties join residence. Thus, a two-child family legally emerges in society.

"Early divorce" is done secretly, and it is often very hard to discover the problem. When starting the divorce proceedings during the early period of pregnancy, the wife's figure has not changed. The court cannot physically examine her, and it is also difficult to find strong evidence through investigations. When the wife's figure changes after the divorce, it is too late to discover the problem. Family planning policies do not include rules on such situations, the couple's work units lack a policy basis for dealing with the problem, and cannot but let the matter develop on its own. After birth, the child naturally is granted a residence permit to live with the mother.

"Phoney divorce" can also take the form of "emergency divorce." Such a divorce refers to a couple hurriedly getting a divorce at a very late hour for a certain purpose. Two types are often observed. In one type, the couple who has already had two children gets a divorce to avoid penalties in the family planning rules. In the other type, the couple who has already had two or more children gets a divorce to avoid sterilization operation. These types of divorce are easily discovered, because the objectives are rather obvious.

According to preliminary investigations, divorce for the purpose of violating the rules of family planning occurs mostly in two-worker families, but seldom in rural areas.

Such a practice of phoney divorce not only seriously obstructs and hampers the implementation of family planning policies, but also tends to cause misunderstandings on the part of the masses about law-enforcement institutions and even policies and laws, thus creating an unhealthy social impact. After succeeding in getting phoney divorces, some people lose all bearings in their joy and declare to all the legality of their conduct. As a

result, people around them acquire the erroneous idea that there are "loopholes" to be exploited in family planning policies and laws, and try to imitate them, creating a vicious cycle. From this perspective, suppressing this unhealthy practice of phoney divorce has become a very urgent matter. [passage omitted]

### Education Official Wants Pupil Workload Reduced

OW2502063092 Beijing XINHUA in English  
0434 GMT 23 Feb 92

[Text] Beijing, February 23 (XINHUA)—A senior Chinese education official has called for an immediate halt to the increase in the workload on primary school pupils, as millions have just gone back to school after the winter vacation.

According to the Beijing-based "CHINA EDUCATION JOURNAL," Liu Bin, vice minister of the State Education Commission, appealed for concerted efforts from teachers, parents and society to take practical measures to lift the mounting pressure on pupils.

Liu's speech was a response to a letter by three parents of primary school pupils complaining that their children were so swamped with homework and numerous tests that they hardly had time to breathe.

Their 11-year old children had to get up as early as six o'clock, after studying and doing homework until midnight.

The complaint may not be completely representative, but is thought to reflect a sweeping trend in Chinese primary schools.

A survey showed that some schools have advanced the start of classes from the normal eight o'clock to seven fifteen, or have cut the twice-a-week physical exercises to one. The saved time is devoted to classroom work.

Liu Bin pointed out that pupils' schoolbags are also growing heavier with textbooks, guide books for examinations, review materials, test papers and other materials.

One primary school in Shanghai uses more than 80 different exercise texts in addition to the many compiled by the school itself.

The rigorous competition to succeed in entering universities often starts in primary schools.

People with university diplomas often get better jobs and better chances of promotion, and a good primary school record is considered vital for getting into a better or key middle school, senior high school and university.

All this has made many schools work children hard in the hope that the children can succeed in exams for better middle schools.

In one night, pupils in a sixth-grade class had to finish a composition of between 300 to 400 words, review and

retell a new lesson, practise a page of Chinese calligraphy of 300 characters and work out 24 arithmetical problems, a report issued by the commission showed.

Liu Bin stressed that schools should make rational timetables for students and strictly follow regulations made to lighten their course burden.

Study hours (including those for private-study) should not be longer than six hours a day for primary school children, one such regulation stipulated.

The number of exams on each subject should be strictly controlled and no simulation tests should be conducted except those approved by the state, Liu said.

#### **Data Shows 33 Million Children Not in School**

HK2702003892 Hong Kong ZHONGGUO TONGXUN  
SHE in Chinese 1100 GMT 20 Feb 92

[Text] Beijing, 20 Feb (ZHONGGUO TONGXUN SHE)—Data shows that there are still more than 33 million school-age children who are not attending school for various reasons.

The children range in age from six to 14; and there are about 170 million children in this age spectrum all over the country, which means one out of five of them does not attend school.

This phenomenon has sparked concern from the education circles.

There are altogether 28 million rural children not attending school, about 83 percent of the total and more than five times the number of urban children not attending school. At 13 or 14, most children in rural areas leave school to participate in household or social labor.

It is learned that a large proportion of six-year-olds are not attending school, mainly because some regions stipulate that children cannot start school until the age of seven.

In terms of regional distribution, the rate of school-age children not attending school in three municipalities, three northeast provinces, and most provinces in central, south, and east China is significantly lower than in the northwest and southwest. The lowest rate is found in Jiangsu Province and the highest in Guizhou, Yunnan, and Qinghai Provinces.

Experts in this area hold that the children not attending school are undoubtedly the main source of China's new illiteracy. China now has 180 million illiterates. Even while the anti-illiteracy campaign is going on, many new illiterates are emerging. This is a serious social problem and should catch the attention of all circles. The efforts from all quarters of society should be combined to stop new illiterates from emerging.

#### **Teachers Urged To Participate in 'Social Practice'**

OW1103083192 Beijing XINHUA in English  
0725 GMT 11 Mar 92

[Text] Beijing, March 11 (XINHUA)—Universities and colleges in Beijing have urged their young teachers to participate in social practice.

Beijing Aeronautics and Astronautics University has worked out a regulation stipulating that young teachers under the age of 35 should participate in social practice for one year in principle. The teachers of natural sciences will go to factories while those who teach social science and arts will be assigned to factories, villages or other places for social practice.

The regulation also stipulates that those who have distinguished themselves in the social practice will have priority to be promoted or sent to foreign countries for advanced studies.

In September of last year, 21 young teachers of the Beijing Aeronautics and Astronautics University went to the Shenyang airplane plant, aeronautic engine factory and other units for social practice.

Beijing Agriculture University has chosen a number of young teachers to participate in scientific and technological research and development work.

Since 1987, the university has sent more than 60 young teachers to scientific research bases in rural areas for social practice.



**NORTHWEST REGION****Ningxia Committee on Pursuit of Nationality Work**

HK1903121692 Yinchuan NINGXIA RIBAO in Chinese  
12 Feb 92 p 1

[Report: "Ningxia Regional CPC Committee Holds Meeting To Convey Spirit of Central Nationality Work Conference"]

[Text] On 10 February, the autonomous regional party committee called a meeting in Yinchuan to relay the spirit of the central nationality work conference to leading cadres with party membership at or above the section and bureau levels.

Huang Huang, autonomous regional party secretary, and Deputy Secretary Liu Guofan, respectively relayed communiques from the central nationality work conference. Liang Guoying, regional deputy secretary, presided over the meeting. Comrades attending the meeting studied General Secretary Jiang Zemin's and Premier Li Peng's important speeches at the central nationality work conference. The meeting stressed that we must earnestly study leading central comrades' speeches and further raise the ideological understanding of cadres and the masses. Party committees and governments at all levels must, in the light of practical conditions, launch extensive educational activities, and, for cadres, concentrate on Marxist nationality viewpoints and the party's nationality policies and education. For the masses, concentrate on teaching that the "Han nationality cannot do

without minority nationalities, and minority nationalities cannot do without Han nationality," further strengthen the consciousness of cadres and masses for doing a good job in nationality unity, and consolidate and develop the good situation of nationality unity in our province. The meeting stressed that we must grasp tightly economic construction as the center, move forward our province's economic construction, and make special efforts to rely on scientific and technological progress and raising economic returns. We must strengthen the work of supporting the poor and construction in southern mountainous areas, and attach importance to training and selecting cadres for nationality work. While upholding the principle of valuing both talent and political integrity, we must strive to improve the composition of cadre contingents. The meeting stressed that we must pay great attention to and handle properly and well religious problems, comprehensively implement and enforce the series of policies from the party Central Committee, State Council, and autonomous regional party committee concerning religious problems and respect and protect freedom of religious belief. While we must protect normal religious activities, we must also resolutely ban all illegal and underground religious activities, tightly guard against the infiltration of international and domestic hostile forces, put religious activities under the Constitution and confine them to the scope permitted by law. The meeting demanded that all departments and units, based on their own practical situation, strengthen research and study, earnestly sum up the nationality work of their own departments and units, study seriously and put forward specific opinions on implementing and enforcing the spirit of the central nationality work conference, and strive to open up a new dimension for our region's nationality work.

### Profile of New Control Yuan Vice President

92CM02164 Taipei TZULI WANPAO in Chinese  
9 Feb 92 p 2

[Article by Yang Jiahui (2799 0857 1920): "Despite the Difficulty in Winning the Control Yuan's Honorable Post, He Tries To Enter the Parliament for a Third Time by Relying on His Vast Wealth"]

[Excerpt] [passage omitted] Enterprise management and a successful political career are two different things. Born in 1939 in Luchou Village, Taipei County, Lin Jung-san became rich through the construction industry in Sanchung and is, therefore, known as the head of the "Sanchung businessmen." Because his father had a rice mill and a grocery, Lin Jung-san spent his childhood working daily either in the fields or in his father's mill. Under his father's discipline, his childhood was one of diligent, intense labor, which helped build his stalwart physique. When he was 14, his overworking father passed away, at which time the family's livelihood fell on the three sons. The eldest one had barely turned 20 at the time. Shouldering the responsibility of supporting their mother and four sisters, the three brothers started their pioneering and hard-working course of life. This is why, after graduating from Kainan Industrial and Commercial School, Lin Jung-san plunged into the rice milling business instead of furthering his studies.

With two hectares of land, a rice mill, and a grocery left by their father, the three brothers worked hard and achieved good results. Before long they opened a second rice mill in Sanchung, and later a third mill in Taipei. Now, each brother had a rice mill to run. All were successful and began saving money. Afterward, by sheer chance, they stepped into the construction and land investment business. With this new business, the Lin family's assets grew exponentially in but a few years. The result was the appearance of today's three big groups—Hungkuo, Hungtai, and Lienpang.

Speaking of the growth of their wealth, Lin Jung-san said that their business development precisely reflected the stages and course of Taiwan's economic growth. "At that time, it was much easier to make money than today. For example, we could earn NT \$5 to 12 [new Taiwan dollars] by selling a bag of rice. The land price in the residential area of Sanchung City at that time was only NT \$300 per ping.... we could earn several ping of land a day. How could such things be realized today?" With regard to the criticism that he engaged in "land speculation," Lin Jung-san flatly denied that it was true. Also, he stressed that no piece of land he bought was "farmland." "As for the construction industry, buying land is like buying 'raw materials.' We have to store more land. Just as a stew caterer buys 100 jin of pork and keeps it at home, we should buy more land and keep it for future use."

A billionaire before entering the political arena, Lin Jung-san has repeatedly stressed that he has had absolutely no "bad records" while in office. To avoid being

hurt by rumors due to his "prestigious but vulnerable status," and to advance further politically, Lin Jung-san, who is still in the construction industry, makes a clear distinction between his own business and the government's construction projects by "keeping a distance" from the latter. Moreover, when asked to do a favor by using his influence, he is exceptionally "cautious" for fear of getting himself into trouble. This is why he time and again tells the public that he is absolutely "clean." He said: "Now, making money is not the most important thing to me. What is most important is to leave a 'good reputation' for the next generation because it is more meaningful to let them have a good family reputation than a large sum of money." Indeed, this is of vital importance to Lin Jung-san, who has a strong sense of traditional family values.

Lin Jung-san ran for the legislature in 1975. He served a term in the Legislative Yuan. Now, he is a two-term member of the Control Yuan. His unmatched wealth has made him "invincible" in every election he has run in. In addition, he has always "generously contributed money" or rendered assistance in other ways to "support" fellow party comrades in running for public office. Especially since becoming vice chairman of the ruling party's Policy Coordination Committee, he has constantly "taken money out of his home." For this reason, he always tells others frankly that every election is a "redistribution of his wealth" whether he himself is running or not. Grumble as he may, he knows well that this is where he is relied upon by the KMT. This is also the "ace up his sleeve" in running for the Control Yuan vice presidency.

For Lin Jung-san's political career, his enormous economic resources are an "asset" admired by everyone. Like a double-edge sword, however, these resources may become his heavy "liability." For example, the current campaign for the Control Yuan vice presidency has proven that our social values and expectations make us reluctant to accept a fat cat "with colossal wealth but not much education" as Control Yuan vice president, one of the most respectable posts in our country. In particular, the Control Yuan, whose function is to supervise and discipline government officials, has a lofty and above-board place in the eyes of intellectuals. "A man of absolute integrity and cleanliness" was the true portrayal of an ideal ombudsman in ancient times. Unfortunately, these "expectations" the public entertains for the Control Yuan vice president are "in no way compatible" with Lin Jung-san's "qualifications."

Furthermore, the public disgust for real estate businessmen has climaxed with skyrocketing housing prices in recent years. Especially with the rise of the "non-home-owners" movement, the public has a very bad impression of businessmen in the real estate and construction industry. Accordingly, people do not view Lin Jung-san, who built up his family fortune through the construction industry, as an ordinary "businessman-turned official," and the obstacles in his way to the Control Yuan vice presidency are more complicated

than he can imagine and apprehend. In addition, the Control Yuan has long been dispirited and unable to carry out its function successfully. Since the method allowing each voter to vote for more than one candidate was adopted for the election of Control Yuan members, many rich people have appeared in the Control Yuan. The notorious image of Control Yuan members has long been known to society.... The combination of these psychological factors has caused public opinion to strongly reject Lin Jung-san.

Despite his insight and acumen in enterprise management, Lin Jung-san is not so savvy in discerning and understanding political and social environments. While sighing over the difference between politics and business, Lin Jung-san should understand one more thing: To win respect and approval, he should not only have a strong will and a tough working spirit, but also know how to actively and selflessly "repay" society. Absolutely, this is more important than accumulating wealth, and more valuable to life than scrambling for the post of Control Yuan vice president.

#### KMT Tightens Control Over State Finance

92CM0215A Taipei HSIN HSIN WEN (THE JOURNALIST) in Chinese  
No 256 & 257, 15 Feb 92 pp 90-92

[Article by Lin Ying-chiu (2651 3853 4428): "Hsu Li-te Gets 16,000 Pairs of New Hands To Count Money—Effects of the Newly Established KMT Financial Business Headquarters"]

[Excerpt] [passage omitted] To organize, instruct, and mobilize party members with financial expertise and policy-making ability, the Kuomintang (KMT) has acted against its reform principle of "streamlining administration at the central level," and established a Financial Business Headquarters to enhance the KMT's organizing and mobilizing abilities, monopolize financial policy-making power, and create a political environment favorable to itself. Such an expedient party-reform measure leaves people in the dark about its guiding principle. Some senior party workers have even said with anxiety: "We don't know where Sung Chu-yu is leading the KMT, and what type of party the KMT will become under his maneuvering."

A meeting on 29 January to mark the inauguration of the KMT Financial Business Headquarters was presided over personally by Hsu Li-te, deputy secretary general of the KMT Central Committee and chairman of the party's Financial Affairs Committee. With more and more people working in the banking, insurance, and securities fields, Hsu Li-te said, the KMT has established the Financial Business Headquarters to enable grassroots financial institutions to adapt their policies to the people's needs and the party's organization and mobilization requirements. However, a senior party worker who took part in the new organization's preparatory work said: "In the financial community, there are many party

members with whom we have lost contact. The purpose of forming the KMT Financial Business Headquarters is to let these party members return home and, at the same time, to recruit new worthy members from the financial profession." In response to an outside query about whether the establishment of the new headquarters has something to do with the party's efforts to raise development funds, this party worker said with a smile: "The more party members we have, the more party development funds we can raise."

Wang Chien-hsuan, the first chairman of the KMT Financial Business Headquarters, seldom participated in party work in the past. When first asked whether he would like to assume the post, he questioned: "If I, as the finance minister, assume the chairmanship of the KMT Financial Business Headquarters, will this not give people an impression that the 'party treasury is linked with the national treasury'? Is it appropriate to do so?" Later, however, he was convinced by Hsu Li-te, who made him aware that it is his bounden duty to accept this post because the job is to implement the KMT's financial policy, which is to make the country rich and serve the people's interests. On his first day in office, Wang Chien-hsuan announced publicly: "The KMT will not influence the work of the Ministry of Finance because of its own interests. I will not give preferential treatment to KMT-run institutions because I am a member of that party, nor will I allow them to be unfairly discriminated against."

Wang Chien-hsuan said: "If we really wanted to influence the financial policy, we could use many channels available in our present system, and there would be no need to form a new party headquarters. Moreover, if we were to commit wrongs, wouldn't it be better and easier not to set up a special organization?" Nonetheless, if Wang Chien-hsuan considers another angle, he will find that after organizing those involved in making financial and monetary policies and giving them proper instructions, it will be easier to influence these policies!

To avert outside criticism, the KMT has carefully selected Cheng Kuo-yuan from the KMT Young Intellectual Headquarters to fill the post of secretary general of the new Financial Business Headquarters. Cheng Kuo-yuan has no background in the intricate financial and business world, but is experienced in organizing and training intellectuals. This simple work experience has enabled him to gain prominence, and become one of the few senior personnel without financial work background in the new KMT Financial Business Headquarters. A lot of people have reportedly vied for the post of secretary general, including nationally renowned provincial assemblymen, business executives and entrepreneurs popular in the financial and economic communities, because the secretary general is the real administrator of the KMT Financial Business Headquarters.

According to Cheng Kuo-yuan, the KMT Financial Business Headquarters comprises party members of the financial profession from the KMT's former Tientan



Headquarters of Taiwan Province, Yangming Headquarters of Taipei City, and Kuangwu Headquarters of Kaohsiung City. Although more than 16,000 people are now under this headquarters, its size is still much smaller than the 90,000-strong KMT Headquarters for Production Enterprises. In the future, a party branch will be established for every company or group with 100 party members or more. The party branch will have a chairman, a vice chairman, and an executive officer. Securities companies in the same city or county may have a joint party branch. Cheng Kuo-yuan optimistically predicts that since the KMT Financial Business Headquarters is directly under the party Central Committee, many delegates to the forthcoming 14th party congress will come from the financial community, thus changing the previous predicament where no financial figure was ever elected to attend a congress.

Financial workers' detachment from party affairs has long been the reason why our financial and monetary policies were not so "political" and "sensitive." In the future, however, these policies will be shrouded in a political cloud due to the party's active involvement in financial and monetary operations. In particular, consider the following: People outside the KMT are unable to see the whole picture of party-run financial institutions. Procedures governing contributions for political purposes have not been institutionalized. All members of the KMT Financial Business Headquarters Committee are key financial policymakers. Elections will be held in each of the next few years. Will the financial and monetary policies become the party's instruments for giving favor to the electorate in exchange for votes? Or will they be used as the party's fund-raising tools? This is worth keeping an eye on.

#### **Sun Yat-sen's Outdated Constitutionalism Criticized**

92CM0213B Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese  
No 256 & 257, 15 Feb 92 p 5

[Article by Szuma Wen-wu: "Don't Hide Behind Sun Yat-sen and Make Trouble"]

[Text] Every nation has its founding spirit and constitutional principles. However, there is no modern nation like Taiwan where, whenever there is discussion on the constitution, there is reference to the instructions of the Founding Father. It is just like in a moslem nation where there is a tendency to refer to the Koran on all possible issues. Everyone is competing to use Sun Yat-sen as a cover in power struggles, as a shield against reform, and as an excuse for not thinking. All responsibility is shifted onto an immature theory created by a person living 100 years ago, and the happiness of future generations is placed on a skeleton-like framework.

The instructions of the Founding Father, the separation of five powers, the May Fifth draft constitution, political

power and governing power, and constitutional initiatives and double approval are all ancient ideas that distort the constitutional spirit. But these ideas are now in fashion, and are placed on the altar of constitutional government to be worshipped as something sacred.

Is the National Assembly to exercise two powers so as to place a check on the Legislative Yuan? Is the Administrative Yuan president to be given the power to dissolve the parliament because the Legislative Yuan does not function well? Is the president to nominate members of the Supervisory Yuan, and is the power of the Supervisory Yuan to be reduced because the Supervisory Yuan's image is poor? The Examination Yuan has already had its real power taken away by the Personnel Administration Bureau, and exists only in name. But everyone is still making a fuss about the Founding Father, as if Sun Yat-sen is our Allah.

These strange ideas have some positive effect on inducing inspiration, so people may substantially expand their imagination. But they will remain birds in the cage of the five-power constitution, and can never reach the real skies. If limited to spinning within the scope of the Founding Father's instructions, a constitutional scholar can only be such a "bird-man."

What is most strange is the National Assembly's bid for power. From the perspective of contemporary constitutional theories, the National Assembly system is totally out of place. In the past several decades, every time the National Assembly attempted something, there would immediately be political instability. This has been a major source of political turmoil, and it remains the case today.

Sun Yat-sen considered the National Assembly an organ of political power. This idea really lacks theoretical basis. But such an idea has now become a tablet embodying the god for the faction struggling for power. The separation of political power from governing power in the original design means the separation of the participatory power from the ruling power. But how can the National Assembly, a popularly elected representative institution, be called an organ of political power. This theory may have represented a way of enlightening the public in the early years of the Republic, but is sheer nonsense in this day and age. But many "bird-men" still look up to those ideas as standards, and believe they can, as representatives of the people, check the five yuans. As a result there have occurred many unnecessary disputes, and the blueprint for constitutional reforms has become even stranger.

The Supervisory Yuan is also Sun Yat-sen's great invention, and today its pernicious influence still lingers on. With regard to cutting off this tumor, there is the fear that such an act may offend Sun's ghost; with regard to preserving it, there is also a fear of damaging the mechanism of the political system. If deputies are directly elected by the people, then is there any difference from the legislators? If they are selected by the president, then

this violates the principle of equality among the five yuans. If a proportional representation system is introduced, then there is the fear that it would provide a battle ground for partisan battles.

In nations that separate the three powers, supervisory power is in the hands of the parliament. But because we have a great Founding Father, today we have many troubles. In fact, from the perspective of ancient history, few imperial censors made great contributions to the government. One can have some idea of the role that it now plays, by seeing how everyone curses it. Aside from the Founding Father's instructions, there is no other reason for its existence.

The function of the Examination Yuan is also pitiful. It is almost at the mercy of everyone else. It is viewed in the

same category as Confucian ceremonies. In this way, it retains its role and helps maintain the facade of the five-power constitution, but it no longer plays any substantive role.

Only the three powers, legislative, administrative and judiciary, are really useful. But the constitutional government is still confined by the five-power ideas, and can neither hold high its head nor straighten its back. Everyone looks for points in the Founding Father's instructions to strike opponents in the struggle for power.

How unfortunate Sun Yat-sen is to be made a man ruining constitutional government.

### Analysis of Sino-Hong Kong Contradiction

92CM0217A Hong Kong TANGTAI  
[CONTEMPORARY] in Chinese  
No 11, 15 Feb 92 pp 15-18

[Article by Cheng Xiang (4453 5046): "An Analysis of and Methods for Resolving Sino-Hong Kong Contradictions"]

[Excerpts] [passage omitted] Looking at things from the perspective of a Hong Kong person, Sino-Hong Kong contradictions can be summed up using three phrases: "One, the issue of sovereignty, two, mistrust, and three, differences in principle over governing Hong Kong." I believe that no Sino-Hong Kong contradictions fall outside this framework.

#### The Central Issue Is One of Sovereignty

The CPC places great emphasis on the issue of Hong Kong's sovereignty. The degree of deep concern shows clearly in their utterances. I read one article, drafted by the Hong Kong-Macao Working Committee, that pointed out that "Hong Kong is a great international city." When this was reported to higher levels, it was revised thus: "Hong Kong is one of China's great international cities." We are used to the former wording, but from Beijing's point of view, it should be changed to the latter wording. The slight change reflects a mental attitude, and strongly emphasizes Chinese sovereignty over Hong Kong. Another example follows. We are accustomed to saying "Chinese [Sino]" and "Hong Kong," as in the phrase "Sino-Hong Kong relations." But the CPC is very sensitive to this wording, believing that it elevates Hong Kong to the position of an independent political entity, on an equal footing with China, and therefore says the wording must be changed to "Beijing-Hong Kong relations," or "relations between mainland China and Hong Kong," etc. These examples all illustrate that the CPC pays much attention to the sovereignty issue when it comes to Hong Kong.

Is the CPC correct in placing such emphasis on the sovereignty issue of Hong Kong? It is not. No one will challenge the basic fact of China's possession of sovereignty over Hong Kong. But why is it that the more China stresses the issue of sovereignty, the more this makes many people uneasy? This is worth analyzing.

That the CPC stresses sovereignty and makes people uneasy is not because Hong Kong people are not patriotic [passage omitted], but is because after more than 40 years of CPC rule, though achievements have been made in the economic sphere, its political record has left people disappointed, and up to now there is still no sign of improvement. Hence, the prospect of "returning to the motherland" has not excited people (this was very different in the 1950s). Not only this, the CPC obstinately wants to equate "love of country" with "love of the party," and make criticism of the CPC the same as lack of patriotism and even betrayal of the country. A person's patriotism or lack thereof must be decided by

the CPC, this disgusts people. Under these conditions, the more the CPC stresses sovereignty, the more uneasy this makes the people of Hong Kong. This is the core issue. It is precisely for this reason that when Sino-British discussions began, Thatcher said it would not be possible to turn over 5 million people to a country under a totalitarian dictatorship. Although outraged at her clear attack on Chinese sovereignty, many people also had strong feelings of support for her words. Hong Kong has quite a few people who are not willing to see Hong Kong returned to the CPC, and in fact this causes the CPC to be even more on guard. The CPC does not ask the people of Hong Kong why they are afraid of the return of sovereignty. On the contrary they feel that Hong Kong people who do not support the return are in fact unpatriotic, and want to damage China's sovereignty over Hong Kong. Hence it is more and more defensive when it comes to the sovereignty issue.

Related to this situation is the fact that Beijing and Hong Kong have different understandings of "one country, two systems." From the point of view of the CPC, this idea has been bestowed by a sovereign country on Hong Kong, and shows that they have great consideration for the people of Hong Kong.

But from the point of view of the people of Hong Kong, this is a tacit admission by the CPC of the defeat of socialism (otherwise how could it tolerate the existence of a capitalist system in Hong Kong). If socialism has really achieved what it has claimed in comparison to capitalism, i.e., "politically, more freedom, economically, more prosperity," Hong Kong has no reason not to be glad about the return, this logic is very simple. At the beginning of the founding of the country, Hong Kong had many people come to Lo Hu, preparing to "welcome an enlightened king," and there were also many people who abandoned their leisurely life overseas to "return to the motherland," because they believed that the system established by the CPC would be "politically, more democratic, economically more prosperous" than capitalism.

This different understanding of "one country, two systems" is also frequently the source of contradictions. Beijing often will emphasize "one country," bearing constantly in mind and reiterating China's sovereignty over Hong Kong, and Hong Kong often emphasizes "two countries," stressing Hong Kong's high level of autonomy and independence. All the contradictions between the CPC and the citizens of Hong Kong are mostly based on this.

#### Two Areas of Mistrust

Precisely because of the excessive sensitivity of the Chinese Communists on the sovereignty issue, two areas of mistrust are created: One is mistrust of the British, fear that the British will "leave artfully," erecting obstacles for the return of sovereignty to China. Second is the mistrust of the people of Hong Kong, the fear that Hong Kong people, under a colonialist system, have a weak concept of



state, and will be unwilling to return to the motherland. Sometimes these two mistrusts are looked at from the high level of "the concept of the enemy's situation." This mistrust creates two levels of contradiction.

### First, Distrust of Britain, the Plot Theory

Since Sino-British negotiations began, the CPC has to a large degree been deeply affected by the "plot theory" when it comes to the policies of the British government, even going so far as to on many occasions displaying what Hong Kong people view as misconstrued or unnecessary tension.

The principle cause of the mistrust the CPC feels towards Britain is that during the process of Sino-British negotiations, Britain at one point laid out some demands, trying hard to continue British rule over Hong Kong. Initially, the British proposed the "three treaties in effect theory," wanting to prove that Britain had sovereignty over Hong Kong. When this plan did not succeed, they also proposed "exchanging sovereignty for the right to rule," abstractly affirming but concretely negating China's sovereignty over Hong Kong. When this plan also failed, they drew support from the dissatisfaction with the CPC that really existed in society, and used the strategies of "the banner of prosperity," and the "banner of the popular will." All of this, in the view of the CPC, was nothing more than tactics to continue British rule over Hong Kong, and obstruct the return of Hong Kong to China.

Due to the above reasons, and the added factor that historically the British record on withdrawal from its colonies has not been an honorable one, Britain wished but could not succeed in keeping Hong Kong under British sovereignty, and wanted to but could not succeed in creating a split between the countries in question. All of this has spurred the CPC's mistrust of Britain. This mistrust of Britain is visceral. Therefore, in the process of negotiating with Britain, China's approach is based on being on guard towards scheming by the other side. "Britain will not be successful taking from Hong Kong and leaving Suzhou drops" seems to have become an iron rule, and has emerged as the basic foundation for viewing British behavior. Most recently when Britain, due to an internal party conflict, found it necessary to replace the governor of Hong Kong, the CPC once again applied mechanically the "plot theory" almost immediately.

On many past occasions, I have pointed out to CPC officials that they lack an understanding of Hong Kong people, and hence worry that the British are plotting. I have pointed out that Hong Kong people will in no way be able to establish a "new-British system," first because Hong Kong people are patriotic, and even those people who oppose the party cannot say no to the return of Hong Kong. Second, Hong Kong people are very realistic, any "new-British" force will "voluntarily change direction." Luo Decheng (5012 1795 2110) is a rare but classic example. Hence, even if Britain really is plotting, it is destined to fail. The CPC could assert calmly and

self-confidently that no matter what you do it will not harm me. In the past Britain and China have had many disputes, all because China first made the determination of plotting, and later used such methods as exposing, criticism and resistance to handle the problem. Their approaches towards the Human Rights Law, the Right of Abode issue, and even the new airport issue have all been like this. Of course the final victor will undoubtedly be the Chinese Communists, but as many people have pointed out, China may have defeated Britain, but will lose the hearts and minds of the people of Hong Kong, and the loss outweighs the gain.

### Second, Mistrust of the Hong Kong People, the Base of Subversion Theory

It may be said that the CPC has a love-hate relationship with Hong Kong. They love Hong Kong because it can assist the mainland's economic development. They hate Hong Kong because Hong Kong's economic success bears witness to the defeat of the CPC. In the past the CPC has consistently propagandized that Hong Kong was a capitalist hotbed of evil, while the mainland was a socialist paradise. But when mainland people go and take a look, they see things just the opposite, and naturally feel that the CPC is trying to hoodwink them. This is embarrassing for the CPC. Looking at things from this point of view, the existence of Hong Kong in a certain sense is threatening to the CPC. Therefore, each time mainland conservative forces raise their head, some will level all types of blame on the people of Hong Kong. This is why many people feel that the CPC does not trust the people of Hong Kong.

The distrust of Beijing officials towards Hong Kong was evident before the 4 June incident. In the early 1980s, during the "anti-spiritual pollution" period, RENMIN RIBAO published a lengthy commentary which attempted to analyze why it was necessary to have an "anti-spiritual pollution" campaign, the logic of which follows:

*Why is it necessary to oppose spiritual pollution? Because the class struggle still exists in China.*

*If the mainland has eliminated classes, why do we still have class struggle? Because Hong Kong has not yet been returned, and Taiwan is still not yet liberated.*

No matter how absurd this logic is (are the 25 million people of Hong Kong and Taiwan going to be able to change the 1 billion people of the mainland? With this approach the CPC is simply shifting the blame for its own corruptness to Hong Kong and Taiwan), from this type of logical inference, we can see how in its heart of hearts, the CPC mistrusts Hong Kong. This theory, in addition to being seen in all newspapers, has also entered the "Party Handbook," which is used to educate vast numbers of party members.

After 4 June, this mistrust became even greater, finally resulting in CPC authorities defining Hong Kong as a "base of subversion." We see the CPC's mistrust of the

people of Hong Kong in the CPC's attitude to the right of final appeal, and its view of the Legislative Council membership system. The Chinese always feel that Hong Kong people wish to cast off the central government. Hong Kong people view these worries as completely unnecessary.

### Third, Differences on Three Principles for Ruling Hong Kong

Precisely because of the existence of these two types of mistrust, over the last 10 years the CPC has formed three principles as to how Hong Kong should be ruled in the transition period. These three principles are not compatible with Hong Kong's past traditional methods of administration. This has resulted in a number of contradictions emerging in normal everyday life.

These three principles are:

#### 1. Transition on the Basis of Strength

This is the basic method for dealing with the two types of mistrust described above. Since the beginning of Sino-British negotiations, the CPC decided on this policy, believing that during the transition the only way to increase its influence in Hong Kong would be based on strength. From this time on, the CPC has gradually increased its influence in Hong Kong on all fronts. Economically this means "expanding Chinese investment" (an increase in the proportion of Chinese investment in Hong Kong's economy). Politically this means "strengthening the power of the party" (early in 1983 Beijing decided to recruit party members from among professional schools and high-level intellectuals in Hong Kong). In terms of security, Beijing made great efforts to send more intelligence officers of various types to Hong Kong to handle different types of problems that could arise during the transition period.

In all fairness, "transition on the basis of strength" does not give much cause for criticism. The CPC wants to take over Hong Kong, and if economically, politically, and organizationally it does not have sufficient strength, then an effective take over will not be possible. The question is, the result of this principle really being implemented is the cultivation of pro-Chinese people to be in power in Hong Kong. For example, the CPC frequently emphasizes that those who will rule Hong Kong in the future should be "patriotic." On the surface, this is not inappropriate, and should not become an issue, because Hong Kong people have always been patriotic (if "patriotic" does not have a politically specified meaning). But for the CPC it is a specific concept, "patriotic" means agreeing with the CPC, and who is or is not patriotic is determined by the CPC. There is a large discrepancy between this prerequisite for governing Hong Kong and the CPC promise that "Hong Kong people will run Hong Kong and have a high degree of autonomy."

#### 2. The Policy for Governing Hong Kong Takes "Administration" as Primary

The primary characteristic of the administrative management system the CPC has implemented on the mainland is "management of everything." This is very different from the "no active interference" policy of the government of Hong Kong. One section of the Basic Law simply gives expression to this "management of everything" philosophy. In the process of drafting the Basic Law, many people complained that the Basic Law specified some things too concretely. For example, the Basic Law stipulates that the post-1997 government financial budget must be balanced. Everyone knows that this is a "good intention" of the CPC. But because there are quite a few examples of the CPC "having good intentions but handling things badly" (for example, the Great Leap Forward), how can this type of meticulous concern for Hong Kong not cause people to worry?

When the Basic Law was drafted in 1986, the CPC itself was in the process of reforming its administrative and management system, and heated debates developed. The party itself realized that there were problems with the administration and management philosophy of "taking management as primary, managing everything." Therefore, the core content of many reform plans in fact called for reforming this "overkill" management philosophy. At that time a large number of Hong Kong people felt that the Basic Law stipulated things too concretely. On one occasion I pointed out to an official from the Hong Kong-Macao Office that this type of Basic Law could not withstand the test of experience, because the CPC's own administrative and management system and management philosophy was on the point of undergoing a major change. Since the CPC discovered that it had to change its own administrative and management system, why did it want to take this philosophy and use it in Hong Kong? This would only result in making the Basic Law prematurely antiquated. This difference in management philosophy is another factor that creates many contradictions between China and Hong Kong. From the Hong Kong point of view, there is a belief that the CPC meddles too much in Hong Kong affairs, interfering in everything beforehand. From the CPC point of view, it does not understand why it must everywhere "give consideration to the people of Hong Kong," and receive a fair amount of dissatisfaction from Hong Kong people.

#### 3. The Policy of Relaxing Economically and Tightening Politically

Precisely because the Communist Chinese have a complex "love-hate" attitude towards Hong Kong, economically wanting Hong Kong to develop anew, while being very anxious politically, a certain lack of coordination emerges in their policy for governing Hong Kong. It is a "policy of relaxing economically and tightening politically." The issue of the internationalization of Hong Kong is a concrete example. Chinese Communist officials frequently state that they are not opposed to the internationalization of Hong Kong's economy, but there

is no way they can raise the issue of political internationalization. Economically speaking, it is possible to accelerate development, but political development then must proceed in an orderly manner, step by step. Hong Kong can preserve the economic social phenomena under its capitalist system, but cannot keep capitalist society's freedom of speech (though this has not been said, it already influences the Hong Kong media, they do not dare criticize the mainland). In the past I have often told Chinese officials that society is an organic whole. If you want to preserve Hong Kong as a capitalist society, you must be prepared to tolerate the ideology of a capitalist society that you do not like. You cannot maintain the capitalist social characteristics of Hong Kong's economy, and politically pursue socialist moral characteristics. The reasoning is very simple. But it is a pity that the Chinese Communist have difficulty accepting this, and has created many contradictions in the handling of affairs between China and Hong Kong (passage omitted)

#### Future Direction of Radio, Television

92CM02184 Hong Kong TA KUNG PAO in Chinese  
14 Feb 92 p 6

[Article by Mei Chuanzhi (2734 0278 0037): "Three Questions on the 'Independence' of Radio and Television Hong Kong [RTHK]" ]

[Text] Discussions on the issue of "independence" of RTHK have dragged on for seven years, with no definite results, mainly because of the entanglement and increasing confusion of three questions.

The three questions are: One, is the Hong Kong government going to continue to take charge of RTHK? Two, is Hong Kong going to start an independent public radio and TV station? Three, is it appropriate to transform RTHK into a public radio and TV station?

The three questions should be treated differently, analyzed respectively, and responded to one by one. Ongoing debates result from "trying to attend to big and small matters all at once," and incongruent arguments.

First, whether the Hong Kong government needs to have and run its own radio and TV station should be decided by the government itself. RTHK has a history of over 60 years. Obviously, the Hong Kong government has always taken its existence as necessary. If the government feels that it does not need RTHK in the future, and decides to close it down, it should publicly explain its reasons. Every year, the Hong Kong government spends a considerable amount of money on propaganda. Apart from RTHK spending, the budget also covers that of the Information Office. Both the Information Office and the Broadcasting Office are government agencies. Why has their past existence been necessary, and why should changes be made at the latter phase of the transition period? Why should one office be closed while the other is retained? Detailed explanations have to be given to such questions. Once publicized, the public can make their own judgment.

In fact, demand for the removal of government sponsorship for RTHK (or put it the other way, cutting off the relationship between RTHK and the government) was voiced during negotiations between China and Britain on the future of Hong Kong, and became established after the China-Britain Joint Communiqué was signed. It is natural that the public take the demand as being related to changes after 1997. Now, some people are attacking the so-called "conspiracy opinions" with pretentious seriousness, denying any intentions of being anti-China or communist-phobia. Does this really correspond to reality?

In today's world, there are quite a few places where government-owned radio and TV stations still exist. Elsewhere, governments do not directly own and run them. For example in the United States, the federal government does not have domestic broadcasting agencies, but owns and manages some radio stations such as the "Voice of America" directed at other countries. The overseas section of BBC is also under the Foreign Affairs Ministry of the government. In a word, the British Hong Kong government may decide to close RTHK in the remaining five years of governance. If the station should be closed, it may be restarted after 1997 if the government of Hong Kong Special Administrative Region thinks that it needs its own radio and TV station.

In regard to the second question of whether Hong Kong should have independent public radio and TV stations, some point out that the production and selection of programs on commercial radio and TV stations are made by commercial considerations, and have limitations. Public radio and TV stations may compensate for these limitations. The argument is clearly reasonable.

In pursuit of real independence, impartiality, and to convince the public that public radio and TV stations will not be pro any power, or dependent on vested interests, the source of funds for the stations has to be assured by a corresponding neutral system. For instance, BBC collects license fees from viewers and listeners in place of government funding (in part), or commercial advertisement fees to show that it is responsible only for viewers and listeners. American public stations have a good reputation among some audiences. Their source of funds is confined by regulation to viewers and listeners' contributions, and the amount of contributions is limited to avoid influence or control by certain prominent contributors. As a result of these regulations, viewers and listeners trust and prefer public radio and TV stations. The salary and benefits of staff on public stations are thus a lot lower than commercial stations because of budget limitations.

Related to the above two questions is the third one. RTHK has always been an agency of the Hong Kong government, and funded by the government budget. Most of the staff are government employees, whose benefits and job security are better than some communication organizations. Employee associations thus raised some difficult wage issues in regard to changing



RTHK into a public organization. Besides, personnel, structure, system, objectives and management of RTHK reflect the nature of the Hong Kong government. Could it be the case that a decision of "independence" will change the station's nature? If still funded by the Hong Kong government, with the same employees, will the declaration of separation from the government change the nature and make the public believe in it? Is it true or false? If an official radio station and a TV station is established, what is the reason for "deriving" it from the former RTHK? With all these questions answered, debates over "independence" will be bound to vanish.

#### Defending RTHK Independence

92CM0218B Hong Kong MING PAO in Chinese  
12 Feb 92 p 41

[Article by Shi Wenhong (0670 2429 7703): "Anti-Communism Conspiracy"—Ignorant Tour de Farce"]

[Text] Those who think that Radio and Television Hong Kong's [RTHK] independence is a conspiracy against communism are obviously making unreasonable and extremely irresponsible remarks.

The question of RTHK independence was long brought up by a special group in the 1985 report of the Broadcasting Affairs Examination Committee. In 1987, the Administrative Bureau decided to implement independence. But probably because the questions of the Medical Commission Bureau and the new airport were more important, the independence of RTHK has been postponed till today. It is good that the China-Britain Liaison Group will put the issue on the agenda in March. After all, the broadcasting of RTHK relates to the public, involving other areas beyond 1997. It therefore has to be discussed by both China and Britain.

First, I believe that the existence of RTHK is a financial problem. The RTHK has a total annual government budget of merely HK\$200 million, a negligible amount of money. The government can continue to spend this amount. Further, the operation of the radio station poses little problem. More consideration should be given to the development of the television station, because the station has no channel of its own. It has to present its programs via the two commercial TV stations for limited hours. It is sensible to make clear the direction of the station's development with the license renewal of the two commercial TV stations.

First, it is definite that both radio and TV play an information balancing role. Radio is especially prominent in providing Guangdong opera, classical music, and Beijing opera for the elderly, people in remote areas, and popular culture audience. The educational, public affairs, information, and artistic value significance of TV cannot be replaced either.

In fact, the government also mandates that the two commercial TV stations provide a certain amount of news and informative programs. However, news reports

are often redundant, and documentaries are mostly imported, somewhat distant from the concerns and needs of Hong Kong residents.

There is no doubt that Chinese TV programs should play a more important role with the advent of 1997. I am against the British Hong Kong government's constant rejection of the introduction of Chinese TV programs. From the viewpoint of information interest, the more information channels there are the better it will be. In the long run, therefore, RTHK will be better off taking the direction of public operation. It should even have its own program strategies and channels. This question, however, is beyond the Hong Kong government scope to decide. It has to be decided by the Chinese government which is going to take over.

It is certainly an important issue whether RTHK's independence is able to adjust itself to general developmental trends. Today, most countries separate public TV stations from the government propaganda machine, and manage them independently. On the one hand, these TV stations can become more specialized and represent public interests, and on the other hand, they can reduce the size of government agencies, and avoid blind government interference. RTHK's independence can get rid of its role as the voice of the information government office, and better meet the public's needs. Financially, its independence may provide more space for government development, and reduce long-standing government spending as well.

It is ignorant to take such a direction of development as an anti-communist conspiracy. Any government should effectively and reasonably supervise mass communications to make sure that they serve the public interest. Both commercial and public TV stations should be subject to this criterion. In fact, the greatest significance of "RTHK independence" lies in the liberation of RTHK from the colonial bureaucratic system, and placement in the hands of law and reason, specialists, and the public. RTHK will be more efficient, competitive and responsive to the public.

China and the public's supervision of RTHK may be carried out through more objective channels. First, the Chinese government and the future Special Region government should assume some form of financial responsibilities. They can be established by future Special Region legislature in accordance with the examination and evaluation of RTHK's performance. Second, there must be regulations about RTHK's independence, clarifying RTHK's function and social role. Consultation with the Chinese government is necessary in this regard. Finally, the board of directors or consultation directors to be established through some form of election or appointment after RTHK's independence may also have supervising functions. I hope that China is able to make good use of these various reasonable supervising agencies to make sure that the operation of RTHK better meets the interests of Hong Kong society.

The most obvious result of RTHK's independence is that the organization will be decolonialized. It has always been the policy of the British Hong Kong government to recruit people from overseas as employees of RTHK. Now that RTHK is independent,

the privileged conditions for recruitment will be canceled, and the gold bowl of the British Hong Kong bureaucracy will vanish as well. This will encourage the younger, more motivated, more industrious native-born generations in their effort to get ahead.

**END OF**

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**DATE FILMED**

29 APRIL '92



